THE BANKING SYSTEMS OF GREAT BRITAIN, FRANCE, GERMANY, AND THE UNITED STATES OF AMERICA

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THE BANKING SYSTEMS OF GREAT BRITAIN, FRANCE, GERMANY, & THE UNITED STATES OF AMERICA

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MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON
1932

First Edition *February* 1932.
Reprinted . *November* 1932.

PRINTED IN GREAT BRITAIN

PREFACE

The articles on the Banking Systems of France, Germany and the United States of America contained in this book appeared in briefer form in the *Scottish Bankers' Magazine*. They have since been re-written and revised. The articles on the British Banking System have not been previously published.

The Author desires to acknowledge his obligation to a friend—" A Continental Bank Official "—for valuable notes on French and German Banking, and to Dr. B. Haggott Beckhart, of Columbia University, New York, for valued assistance in the preparation of the American section.

The hope is expressed that the information contained in the following pages may be found both interesting and useful to the student of banking and finance and at the same time not without interest to the general reader.

INTRODUCTION

THE business of banking may be briefly defined as dealing in money and the instruments of credit. For the successful carrying-on of trade and commerce in a community, banks are indispensable. If this may be said regarding bygone times, it applies with greater force to the present day, when banks exercise so potent an influence in the sphere of credit and finance.

Although there are certain forms of banking common more or less to most systems, each country has in some measure its distinctive type. In the early period of banking history, this feature was more marked than in later times. Instead of banks transacting, as they now do, all kinds of banking business, they confined their operations for the most part to one particular class. Thus, in some parts, banks were established for remittance and exchange business, while in other places they were only banks of deposit and discount.

The success of banking greatly depends on the conditions under which it is carried on. It has been found to succeed best when, under careful and prudent management, it has been given a free and natural course, without unnecessary restrictions being imposed by the State.

In this treatise dealing with the Banking Systems of Great Britain (embracing the distinctive English, Scottish, and Irish Systems), France, Germany, and the United States of America, various matters are dealt with relating to the subject. In particular, reference is made

to the rise and development of banking in each of those countries; to the central and other banks engaged in the business, and their inter-relations; as also to the nature of their banking operations. Comparisons are also made between banking methods and regulations on various points.

CONTENTS

VII

VIII

IX

I. THE ENGLISH SYSTEM

I

THE BANK OF ENGLAND

The Bank of England : the pivot of English banking.—Its privileged position.—Banker to the British Government, and services as such.—The Bank's branches, and purpose they serve.—The Administration of the Bank.—Legislation affecting the Bank : the Act of 1844; the Currency Act of 1928.—The Bank's Weekly Return.—The Bank's relations with other banks; its relations with private customers.—The Bank of England—subsidiary company.

It is no exaggeration to describe the Bank of England as the pivot and centre of English banking. This unique position the Bank has held with distinction during the long period of its history. The predominance of the Bank of England among English banks is due to the privileges conferred upon it by its original and subsequent Charters. In virtue of these, the Bank not only enjoys the right and privilege of note issue, but, amongst the banks, its notes alone are legal tender. Besides being the banker of the British Government, all the other banks have accounts with it, and it is the chief depository of the gold of the country. Further, the Bank of England alone as the Central Institution has the prerogative of declaring the minimum Rate of Discount, termed the Bank Rate, from time to time, thereby giving the lead

to the banks and discount houses, which fix their rates in relation thereto.

Unlike some Central banks, the Bank of England is in no sense a State bank. Its capital is owned by private individuals like that of any other bank, its Directors are chosen by the Shareholders, and the Government is not represented in its management, neither does it share in the Bank's net profits. At the same time, the Bank throughout its long history has had close associations with the State. The original capital of the Bank, consisting of £1,200,000, was lent to the Government of William III, from which it received its Charter of Incorporation in 1694, when it was founded. This Charter conferred certain privileges upon the Bank, one of these being the exclusive right of note issue in London, and within a radius of sixty-five miles of that city.

The capital of the Bank of England was increased at successive periods by subscriptions and Calls on the Proprietors, and by additions from the surplus profits, until it has attained the present large figure of £14,553,000. In addition to this capital, the Bank's Rest or Reserve Fund amounts to upwards of £3,000,000. This Fund, which is variable, is never permitted to fall below three millions. The Government's indebtedness to the Bank has been added to from time to time, and now amounts to £11,015,100.

As banker to the Government, the Bank of England has the management of the National Debt, on which it pays the dividends periodically as they become due. It also belongs to the Bank to attend to the issue and withdrawal of Exchequer Bills and Treasury Bonds; the issue of all Government Loans, of which there were several during the War period and since; and all the banking operations connected with the Treasury.

One of the most important public services performed by the Bank's branches in the Provinces consists in the remittance of the Revenue, which is paid in by the collectors, and credit for which is at once given in the Exchequer Account in London. The branches also serve as depôts, or centres, for the circulation and withdrawal of the Bank's notes, which now constitute the whole of the legal tender currency.

The Administration of the Bank

The affairs of the Bank of England are administered by a Court consisting of a Governor, Deputy-Governor, and twenty-four other Directors elected from the body of Shareholders. The Governor and Deputy-Governor serve in their respective offices for a period of two years, the former at the expiry of his term of office being succeeded by the latter, unless re-elected by the Court. The present Governor of the Bank, the Right Hon. Montagu Collet Norman, D.S.O., because of his eminent services to the Bank during a difficult period, has been unanimously re-elected Governor for twelve years in succession. It was long a rule of the Bank that no English banker was eligible for election to the Directorate. An exception would now appear to be made, however, in the case of members of private or merchant banking houses.

The Governor and his Deputy form the chief Executive of the Bank and, along with a Committee of Directors, are in daily attendance for the consideration of various matters requiring their decision.

The General Court meets for regular business every Thursday, when a statement is made showing the exact position of the Bank Accounts up to the preceding night.

At this meeting all matters requiring its authority are brought before the Court, not the least important, as far as the outside business world is concerned, being the question of making alteration of the Bank Rate of Discount.

Legislation affecting the Bank

The legislation passed during the early period of the Bank's history was designed mainly to preserve its monopoly of joint stock banking. In 1708, on the renewal of the Bank's Charter, a clause was inserted granting the Bank a monopoly of note issue. This clause in effect prevented any bank or banking company in England exceeding the number of six persons issuing notes.

It was not until 1826 that the first breach was made in the monopoly of the Bank of England. By an Act of that year, liberty was given to more than six persons to carry on the business of banking in England, provided they did not establish an office in London.

The Act of 1844

The most important legislation affecting the Bank of England took place in 1844 by the passing of the well-known Act of that year, whereby the Bank was divided into two departments, namely, the Issue and the Banking Departments. The former department related to the Note Issue, and the latter to Government and private banking. In terms of this Act, the Banking Department had to transfer to the Issue Department Government Securities—of which the Debt due by the Public to the Bank was to form a part—to the value of £14,000,000, against which it was to receive from the Issue Depart-

ment notes to an equal amount. The Banking Department must issue to the public no notes except those received from the Issue Department, which the latter could only issue in excess of the statutory limit of £14,000,000, against the deposit of coin and bullion to the exact amount of such excess. Of this coin, the Bank was permitted under the Act to hold silver in the proportion of one-fifth of the whole.

The Act of 1844 also provided that if a bank of issue should from any cause relinquish this right, the Bank of England might in such a case increase its fiduciary issue in a fixed proportion of two-thirds of the amount thus withdrawn. All profits accruing from such increase were to go to the Government. By the operation of this clause of the Act, the amount which the Bank of England can issue against securities has been increased from £14,000,000 to £18,450,000, and in February 1923 was further increased by an order in Council to £19,750,000. The Bank was also required by this Act to publish a Weekly Statement of its Accounts, which it has since regularly done.

The Act provided that anyone may demand notes from the Issue Department in exchange for gold bullion at the rate of £3 17*s*. 9*d*. per oz. The Bank was required by an earlier Act to sell gold in bars at the Mint price of £3 17*s*. 10½*d*. per oz.

Bank of England Notes only were legal tender along with gold coin until the outbreak of the War in 1914. Since then, a Government issue—termed Treasury, or Currency Notes—was authorised to be put in circulation by the Treasury, in addition to the Bank of England issue, to take the place of gold coin which was gradually withdrawn. These Currency Notes were for sums of £1 and 10*s*. respectively, and there was no statutory

regulation made either as regards the total amount to be issued, or the amount of the gold reserve to be held against them.

THE CURRENCY ACT, 1928

In terms of an Act, known as the Currency and Bank Note Act, passed in June 1928, the Currency Note issue was amalgamated with that of the Bank of England, and on and after 22nd November, 1928, the Bank was given the exclusive right to issue notes of £1 and of 10*s*. in addition to those of £5 and upwards. All such notes, and those only, were declared legal tender for all payments in Scotland and Northern Ireland, as well as in England and Wales. By the same measure, the fiduciary note issue was fixed at £260,000,000 as a maximum. It was provided at the same time that this limit could be raised or lowered after consultation between the Bank authorities and the Treasury.*

It is understood that as part of the cover for the new note issue, the Bank is authorised to retain commercial bills. It is provided under the Act that all profits from the issue of £1 and 10*s*. notes, as well as those of £5 and upwards, will accrue to the State.

It may be of interest to append here a copy of the last of the Weekly Returns of the Bank of England under the 1844 Act, and, in order to show the changes effected by the new Act, a copy of the first Return thereunder in the week following, viz., 28th Nevember, 1928, is also given.

It will be observed that in the new Form of Return the following changes were made, resulting in more detailed information than was supplied in the previous form.

* The Bank of England was authorised by the Treasury to increase its fiduciary issue to a total of £275,000,000, as from 5th August 1931, until further notice.

(1) Return for Week ending 21st November, 1928

Issue Department

Notes issued	£180,964,085	Government Debt	£11,015,100
		Other Securities	8,734,900
		Gold Coin and Bullion	161,214,085
	£180,964,085		£180,964,085

Banking Department

Proprietors' Capital	£14,553,000	Government Securities	£48,340,327
Rest	3,204,147	Other Securities	34,757,491
Public Deposits	14,898,189	Notes	48,161,710
Other Deposits	99,472,105	Gold and Silver Coin	870,504
Seven-day and other Bills	2,591		
	£132,130,032		£132,130,032

(2) Return for Week ending 28th November, 1928

Issue Department

Notes issued :—		Government Debt	£11,015,100
In Circulation	£367,001,148	Other Government Securities	233,568 550
In Banking Department	52,087,797	Other Securities	10,176,193
		Silver Coin	5,240,157
		Amount of Fiduciary Issue	£260,000,000
		Gold Coin and Bullion	159,088,945
	£419,088,945		£419,088,945

Banking Department

Proprietors' Capital		£14,553,000	Government Securities		£52,180,327
Rest		3,254,001	Other Securities :—		
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)		21,452,051	Discounts and Advances	£13,586,293	
Other Deposits :—			Securities	20,214,855	
Bankers'	£62,379,409				33,801,148
Other Accounts	37,185,203		Notes		52,087,797
		99,564,612	Gold and Silver Coin		757,041
Seven-day and other Bills		2,649			
		£138,826,313			£138,826,313

In the Issue Department, the amount of Notes in actual circulation is now stated separately from the total in the Banking Department, which with gold and silver coin constitute the Reserve. On the opposite side of the Return, the amount of silver coin is stated separately from that of gold coin and bullion in same Department, and " Other Securities " now detailed apart from " Other Government Securities."

In the Banking Department, under " Other Deposits," the aggregate of Bankers' Balances are stated separately from the total of Private Deposits. Instead of Public Deposits, and the amount of same being stated without any particulars, the information is now supplied as to what these consist of, viz., Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts. On the opposite side of the Return, under the item " Other Securities," the amount consisting of Discounts and Advances is now stated separately from other holdings constituting same.

These various changes which have been made in the form of the Weekly Return, not only satisfy a long-expressed desire for fuller information regarding its contents, but also add to the general interest felt in perusing its details.

The Bank's Relations with other Banks

Besides being the banker of the British Government, the Bank of England may appropriately be called the Bankers' Bank. In addition to the balances of the London Clearing Banks, nearly every bank in the kingdom has an account in its books. If proof of this were required, reference need only be made to the published balance-sheet of a bank, where, amongst the

assets specified, cash at the Bank of England invariably forms one of the items.

The balances of the various banks forming their reserves, or part thereof, being held by the Bank of England, in addition to those of the Government, the latter bank is thereby constituted the custodian of the nation's gold reserve. During the War period and since, all the banks of the kingdom, in response to the expressed wish of the Treasury, passed over to the Bank of England all gold coin coming into their hands. This exclusive privilege of the Bank to have full control of the country's metallic reserve is conserved under the new Currency Act.

In consequence of £1 and 10*s*. Bank of England notes now taking the place of gold coins as a circulating medium and legal tender, the latter as such are not actually required. Neither are they indispensable for small payments as they may have been in pre-War times.

As the Bankers' Bank, a very important service rendered by the Bank of England is its settlement of Clearing House balances on behalf of the Clearing Banks who represent, not only themselves, but other banks for which they are agents.

While it is the case that the Clearing Banks are not represented on the Directorate of the Bank of England, neither are they consulted on such matters as making alteration in the Bank Rate of Discount, friendly relations have always been maintained on both sides. Both the Bank of England and the Clearing Banks are represented on the Clearing House Committee and the Treasury Committee. By their representation on the latter Committee the Joint Stock banks are thereby kept in touch as it were with the Chancellor of the Exchequer as official head of the Treasury, and are thus in a position

to express their views regarding important matters of banking and finance which may have a bearing on their interests.

The Bank of England, although carrying on the business of banking like the other banks, cannot be said to enter into competition with them as they do *inter se.* This is shown by the fact that while one or more branches of the principal Joint Stock banks are found in almost every town in the kingdom, the number of branches of the central institution does not exceed nine. Neither is the Bank of England a competitor with the ordinary banks in the matter of deposits, inasmuch as, unlike them, it does not allow interest on lodgments.

The banks who are its customers have liberty to withdraw the whole or any part of their balances with the Bank, as and when they desire. They can also obtain advances and re-discount bills, when occasion requires, on the same terms as ordinary customers.

The Bank's Relations with Private Customers

The Bank of England receives money on deposit and is willing to open a drawing account for any person who is properly introduced. While no stipulated sum is insisted on as a cash balance, it is understood that it will be such as shall remunerate the Bank for its service. Accounts are not permitted to be overdrawn. The Bank readily discounts bills, if considered good, for its customers and makes advances on approved securities.

In addition to the issue of notes at its principal office and branches, the Bank of England also issues Post bills, grants drafts, and makes transfers. Customers' securities are received for safe custody, the interest or dividends on which are collected and credited to the respective accounts, for which service no charge is made.

Prior to 1914, the Bank of England undertook to pay its notes in gold on presentation and to receive bullion in order to have it coined at the Mint. Since then, the Bank has been relieved of these obligations. It may pay its notes in gold if desired, but is not obliged to do so. When the embargo on the export of gold was removed and the gold standard restored in April 1925, any purchaser desirous of exporting gold could obtain bullion at the Bank for the purpose, but not the minted money. The bullion consists of bars of not less than 400 oz. fine, and is sold at the Mint price of £3 17*s.* 10½*d.* per oz. standard.*

The Bank of England, unlike other banks, does not publish an Annual Balance Sheet, or Profit and Loss Account, for the information of its shareholders and customers. The Bank's Weekly Return shows, amongst other items, the amount of "Rest" or Reserve, from which Fund the excess over £3,000,000, consisting of undivided profit, is available for payment of the half-yearly dividend to the shareholders.

The Bank of England—Subsidiary Company

In November, 1929, the Bank of England organised a subsidiary company, named the Securities Management Trust, Ltd., in order to take charge of the work the Bank had undertaken of assisting industrial reorganisation. The Bank had given assistance to the Steel Industry, and by its support to the Lancashire Cotton Corporation had contributed to the plan for the rationalisation of the textile industries. The interest which the Bank had previously taken in these and other basic industries was

* A bill suspending Sub-section 2 of Section 1 of the Gold Standard Act of 1925, until further notice, was passed through Parliament on 21st September 1931, consequent on the abnormal drain of gold from the Bank for foreign export.

transferred to the new subsidiary company which had been formed. The directors of the latter were well known, and men who, because of the technical knowledge which each possessed in his own sphere, were able to be of assistance in any industry in which there was a movement for rationalisation.

The next development was the incorporation on 15th April, 1930, of a new company named the Bankers Industrial Development Company, Ltd., the promotion of which marked a further stage in the Bank of England's plans for bringing industry and finance into closer relations. The Share Capital of the Company consists of £6,000,000, divided into forty-five " A " Shares and fifteen " B " Shares of £100,000 each. The " A " Shares have been taken up by all the principal banks—including the Scottish Banks of Issue—and financial houses in London. Each of the subscribing banks has been allotted one " A " Ordinary Share, and the " B " Shares are all held by the Securities Management Trust. The " B " Shares have three times the voting rights of the " A " Shares, and this arrangement gives the Bank of England half the voting strength in the Company's administration, as well as in all meetings called for.

By a resolution of the Company it was ordained that 75 per cent. of its nominal capital, consisting of the " A " Ordinary and " B " Ordinary Shares, should not be capable of being called up, except in the event of the Company being wound up.

Mr. Norman, Governor of the Bank of England, was appointed Chairman of the Board of Directors, with Sir Guy Granet as his alternate, the other members being Baron Schroder, with Major Pam as alternate; Mr. A. R. Wagg, with Mr. Nigel Campbell as alternate; Mr. E. R. Peacock, and Mr. Bruce Gardner.

In addition to the Board, an advisory council has been appointed, whose services are available when required.

It is anticipated that the rationalisation projects of the Securities Management Trust, Ltd., will involve a debenture issue to the public for the purpose of raising the requisite capital. It is expected that such an issue, when it takes place, will be made through the Bankers Industrial Development Co., Ltd.

The principal object of the Bankers Industrial Development, Co., Ltd., is to examine rationalisation schemes submitted by basic industries. It is not intended that it should deal directly with individual companies, but with industry as a whole, or a regional section thereof. It will assist an industry, of whose scheme it approves, to obtain the necessary capital which may be procured through existing channels, that is to say, through the banks and financial houses. Such capital, however, must not be used to liquidate past debts, or the standing claims of creditors, but only to enable the industry to reorganise itself for future purposes.

II

ENGLISH PRIVATE BANKS

English Private Banks: their origin and nature of business carried on.—Limitation in number of partners.—Early private banks.—Decline of private banking, and causes of same.—Rise of Joint Stock banking.—First Joint Stock banks in London.—Advantages of Joint Stock banking.—The trend towards centralisation.—Effects of amalgamation among banks.—Co-ordination of interests a feature of modern industry.

CONTEMPORARY with the Bank of England for many years, and prior to its establishment, private banking flourished in England. The goldsmiths of London, who carried on their craft during the reign of the Stuart kings, were the original representatives of the private bankers in that city. Those goldsmiths not only received the custody of their customers' plate and valuables, but of their money as well. For these lodgments, they granted receipts which were the precursors of the bank note. Gradually the system of private banking became established, which consisted at first of receiving money on deposit and lending same at interest.

On account of the Bank of England Charter of 1708, no private banking partnership could consist of more than six persons. Despite this restriction, private banking establishments flourished, both in London and the provinces for many years. Of the early private banks of London, Messrs. Hoare—established prior to 1673—Childs, and Coutts & Co. remain to this day, although

the two latter have within recent years become amalgamated, or associated with Joint Stock institutions.

It would appear that none of the private banks of London at any time exercised the privilege of note issue in competition with the Bank of England. The private banks in the Provinces, on the other hand, took full advantage of this right. In consequence of the freedom of note issue to such, numerous private banks of small partnerships were established in all the important towns throughout England. Many of these banks flourished for a considerable time, but owing to excessive issues amongst a number of them, and lack of proper regulation of same, a period of inflation arose, resulting in financial crisis.

In the notable crisis of 1825, numerous failures took place among the private banks in the provinces. The failures arose in most cases on account of "a run"—arising from panic—being made upon them both by note holders and depositors, which, for lack of resources, the banks were unable to meet. So many failures thus occurring at one time, and apparently from the same cause, convinced the Government of the need of banking reform. Consequently, in the year 1826, an Act was introduced to amend the Bank of England Charter, and remove the restriction on the number of partners in banks of issue. The passing of this measure led to the formation of Joint Stock banks with branches throughout England, resulting in the gradual decline of private banking.

The Rise of Joint Stock Banking

It was only in the provinces that the Act of 1826 gave permission for banks of issue with more than six partners to be formed. This privilege did not extend to London,

and as it was then supposed that the business of banking necessarily included that of note issue, no attempt was made to set up a rival Joint Stock bank in the metropolis. It was, however, fortunately discovered that the Charter of the Bank of England, while securing to that bank the sole right of note issue, did not in express terms prohibit Joint Stock combinations from engaging in other forms of banking in London. Any dubiety which might have existed on this point was removed by the Declaratory Act of 1833. This Act expressly stated that any company or partnership, although consisting of more than six persons, may carry on the business of banking in London, though not having the right to issue their own notes.

It was not until the year following the passing of the Act mentioned, namely, on 10th March, 1834, that the first Joint Stock bank—other than the Bank of England—was established in London. This was the London and Westminster Bank, which commenced business as a bank of deposit, having a paid-up capital of £50,000. Other Joint Stock banks soon followed, amongst the first being the London Joint Stock Bank in 1836; the Union Bank, and the London and County Bank, both in 1839.

The rise of Joint Stock banking, and its rapid extension both in London and the provinces, led to the decline of private banking, and the gradual decrease in the number of such banks doing business. Consisting in most cases of banks with one office only, and restricted by the terms of their Charter, the private banks were unable to compete successfully against the large Joint Stock establishments which speedily sprang up. The latter, as a rule, had numerous shareholders and an ever expanding branch system.

Many of the private banks, where locally established,

did well, and are still honourably remembered. Regarding most of their number, it may, however, be said *qua* private banks they were lacking in two essential features, namely, ample resources and powers of expansion. The Joint Stock banks, on the other hand, having in each case a large capital and substantial deposits, were in a better position to meet the financial needs of those engaged in industry and commerce. By means also of their branch system, they were well fitted to extend banking facilities to the remotest parts of the country. Consequently the private banks in most cases ceased doing business, or amalgamated with the Joint Stock institutions.

The Trend towards Centralisation

The Joint Stock banks in the provinces, being without a London establishment, were under the necessity of transacting their London business through the agency of one of the London banks. Despite the fact that the opening of a London office by a provincial bank involved forfeiture of note issue, there were obvious advantages which compensated for such loss. It followed therefore that several of the banks in provincial towns sought direct representation in the city by amalgamation with London banks which were members of the Clearing House. Amongst the first of the banks to take this step was the Birmingham and Midland Bank, Ltd., Birmingham, which took over the business of the Central Bank of London, and became thereafter the London and Midland Bank. Another important provincial bank which sought London representation was Parrs Bank, Ltd., in Warrington, and this it effected by the purchase of the private bank of Fuller Banbury & Co.

There was thus begun the process of consolidation and centralisation which has been a marked feature of

English banking for more than half a century. Not only were private banks in a number of cases taken over by the larger banks and converted into branch offices of same, but many well-established Joint Stock banks with a good branch connection have been at one time or other also absorbed.

As the result of this process, there are now evolved huge combinations such as the " Big Five," as they are commonly termed, viz., The Midland Bank; Lloyds Bank; Barclays Bank; The Westminster Bank, and the National Provincial Bank. These large institutions have each their principal office in London, with numerous branches throughout the provinces. Four of these banks have associated with them banks in Scotland or Ireland, and some have interests in banks doing business in other countries, hereafter referred to.

The process of combination among British banks which has been in operation for a number of years is regarded as having now well-nigh exhausted itself, and approximated its limit. In this connection it may be noted that the movement towards centralisation and combination of interests, with control administered from one centre, is not confined to banks, but is a feature of modern industrial life. Establishments in the same line of industry, which formerly conducted their business independently of each other, are now in a number of cases co-ordinated, and individual interests have become subordinated to the general. Such changes may have far-reaching effects. Advocates of the movement claim for it a greater economy and efficiency in operation, and better results than could have been obtained under former methods.

III

THE ENGLISH JOINT STOCK BANKS

The London Establishments

The London Establishments.—The Midland Bank, its growth and present position.—Lloyds Bank, some of its absorptions.—Barclays Bank, features in its growth.—The Westminster Bank: earliest of the London Joint Stock banks.—The National Provincial Bank, its absorptions and affiliations.—Number of branches, aggregate Capital and Reserve funds of the Big Five.—Other London Establishments: Glyn, Mills & Co.; Coutts & Co.; The Provincial Banks; Martin's Bank; The District Bank Limited; Manchester and County Bank; Union Bank of Manchester; Williams Deacon's Bank.

JUDGED by the extent of its resources, the Midland Bank is the largest among British institutions. It was originally established as a small Joint Stock bank at Birmingham in 1836, under the name of the Birmingham and Midland Bank, as previously stated. In the 'eighties it began a policy of absorption and branch extension, among the banks then taken over being the Union Bank of Birmingham in 1883. The bank absorbed the Central Bank of London in 1891, when it removed its head office to London and changed its name to that of the London and Midland Bank. Seven years later the bank amalgamated with the City Bank, when the name was changed to the London City and Midland Bank. Other important absorptions were the North and South Wales Bank in 1908, and the Metropolitan Bank of England and Wales in 1914. The last and

probably most important fusion was that effected with the London Joint Stock Bank in 1918, when the name of the bank was again changed to that of the London Joint City and Midland Bank. In 1923 the bank's official name was shortened to that of the Midland Bank, Ltd., as at present. In 1917 the Bank obtained a controlling interest in the Belfast Banking Co., Ltd., and now owns its entire capital. In 1920 the Midland Bank purchased by mutual agreement the shares of the Clydesdale Bank, and, in 1924, a similar transaction took place with the North of Scotland Bank, whereby it now owns its capital.

The Midland Bank's new head office buildings are at Poultry, London, and it has a branch system extending to all parts of England and Wales, and numbering in the aggregate over 2000 offices. The bank's paid-up capital is £14,248,012, its Reserve Fund an equal amount, with total resources of £455,256,851.

Lloyds Bank, Ltd., was originally formed as a private bank at Birmingham in 1765, and was incorporated as a Joint Stock bank in 1865. By the absorption of a number of banks, both private and Joint Stock, at various periods during its history, it gradually attained to its present strong position. Among the banks taken over were Barnetts, Hoares & Co., and Bosanquet Salt & Co., London, both in 1884, the Birmingham Joint Stock Bank in 1889, the Bristol and West of England Bank in 1892, and the Liverpool Union Bank in 1900. Among the most recent amalgamations were that of Messrs. Cox & Co., the Army bankers, and Messrs. H. S. King & Co., both in 1923.

The most important amalgamation was made in 1918 by purchase of the shares of the Capital and Counties Bank, Ltd., which resulted in an addition of 473 branches,

with large deposits. In the same year Lloyds Bank became affiliated with the National Bank of Scotland through the purchase by mutual arrangement of the major portion of the latter bank's shares.

The bank's new head office buildings, completed in 1930, are at Lombard Street and Cornhill, E.C., and it has over 1900 branches in England and Wales. Lloyds Bank has a paid-up capital of £15,810,252, a Reserve Fund of £10,000,000, and total resources of £434,260,542.

Barclays Bank, which has its head office at 54 Lombard Street, was first established as a private bank prior to 1729. Its present strong position is the result of a great many amalgamations with other banks, both private and Joint Stock. In 1896, when it was known as Barclay, Bevan, Tritton & Co., it became established as a Joint Stock Company, taking the name of Barclay & Co., Ltd. Among the more important banks with which Barclays has become amalgamated, or affiliated, are the following, viz., the United Counties Bank, Ltd., in 1916, the London Provincial and South Western Bank, Ltd., in 1918, and the Union Bank of Manchester in 1919. The Bank also acquired in 1919 a controlling interest through the purchase of its shares in the British Linen Bank in Scotland. Barclays Bank has over 2000 branches in England and Wales; a paid-up capital of £15,858,217, a Reserve Fund of £10,250,000, and total resources of £388,092,024.

The Westminster Bank, Ltd., with principal office at 41 Lothbury, London, consists of a combination of banks, the principal of which, the London and Westminster, was established in 1834, being the first of the Joint Stock banks to start operations in London. The London and Westminster Bank amalgamated in 1909 with the London and County Bank, the new name

adopted being the London County and Westminster Bank. In 1918 an amalgamation was made with Parrs Bank, Ltd., when the name became London County Westminster and Parrs Bank, Ltd. The name of the Bank was changed to its present short title on 1st March, 1923. In November 1917 the Bank purchased the greater part of the share capital of the Ulster Bank, Ltd., Belfast.

The Westminster Bank has over 1000 branches in England and Wales, a paid-up capital of £9,320,157, a Reserve Fund of equal amount, and total assets £329,172,012.

The National Provincial Bank, Ltd., which has its head office at 15 Bishopsgate, London, was established in 1833 as the National Provincial Bank of England, and amalgamated in 1917 with the Union of London and Smiths Bank. As the result of this amalgamation, the name given to the joint concern was the National Provincial and Union Bank of England, Ltd. Since 1917, the following amongst other banks have been acquired, viz., the Bradford District Bank in 1917, the Sheffield Banking Company in 1918, and the Nottingham Union Bank in 1919. The old established bank of Coutts & Co. was affiliated as from 1st January, 1920, and that of Grindlay & Co. as from 31st December, 1923. Both of these banks, however, continue to do business under their respective names as before.

The bank's name was shortened to its present title of National Provincial Bank in 1924. It has over 1300 branches and agencies doing business in England and Wales, a paid-up capital of £9,479,416, a Reserve Fund of like amount, with total assets £322,102,162.

The total number of branches in England and Wales of the aforementioned five banks as at 31st December, 1930, exceeded 8400, and of these a considerable number

are in the London area. The aggregate of their capital and Reserve Funds at same date was £118,013,600, and their total deposits over £1,682,336,019. The gross total of the loans and advances of these banks at same date was £828,793,579, showing a proportion to deposits of over 49 per cent. It may be of interest to note that the total of loans and advances for the previous year (1929) was £877,746,200, nearly fifty millions more, the percentage to deposits for that year being over 54 per cent. The decline in the total figures was due to the general trade depression which prevailed throughout the year.

While it may be assumed that a certain proportion of those advances has been made by the banks in each case for Stock Exchange purposes, much the greater part has gone to supply credit to the industries of the country, as well as to assist trade generally.

In addition to the members of the " Big Five " engaged in banking business in London, mention may be made of one or two other well-known banks. One of the best known of single banking institutions is that of Messrs. Glyn, Mills & Company, 67 Lombard Street, which was established as a private bank in 1753, and registered as a Joint Stock Company with unlimited liability in January 1885. In January 1923, Messrs. Glyn, Mills & Co. acquired the business of Messrs. Holt & Co., long established as Army bankers and agents, and in May 1924 they absorbed the private firm of Messrs. Child & Co., Fleet Street, one of the oldest among private banks. The absorption of these two banks, since carried on as branch establishments, added considerably to the business of Messrs. Glyn, Mills & Co. Their present capital is £1,060,000, Reserve Fund £530,000, and total assets £43,898,167.

The bank of Messrs. Coutts & Co., though affiliated as from 31st December, 1919, with the National Provincial Bank, continues to do business under its own name as before, its chief offices being at 440 Strand, W.C., and 15 Lombard Street, E.C., with three West End branches in addition. This well-known bank has a history older than the Bank of England, for it began business as a private bank in 1692. In 1892, two hundred years later, it was registered as a Joint Stock Company with unlimited liability. In 1914, Messrs. Coutts & Co. took over the business of Messrs. Robarts, Lubbock & Co., when it became a member of the London Clearing House. The bank has a paid-up capital of £1,000,000, a Reserve Fund of £1,000,000 and total assets of over £22,021,189.

The Provincial Banks

There are several other important banks which have offices or agencies in London, but, owing to each of them having its head office in a provincial city, are therefore regarded as provincial institutions.

Of these, the leading member is Martins Bank, the head office of which is at 7 Water Street, Liverpool. The bank was formerly known as the Bank of Liverpool and Martins, which was a combination since 1918 of the Bank of Liverpool, established in 1831, with Martins Bank, London. The Bank of Liverpool, previous to its amalgamation, had absorbed a number of private and Joint Stock banks which did business principally in the north of England, the most important of which was the North Eastern Banking Company. Subsequent to amalgamation, the Bank of Liverpool and Martins absorbed amongst other banks the private bank of Messrs. Cocks, Biddulph & Co., London, and the Palatine Bank, Ltd., of Manchester. The latest amalgamation,

which took place in 1928, was with the Lancashire and Yorkshire Bank, Ltd., a very important institution whose total assets were over £26½ millions. Following on this last amalgamation, the name of the bank was shortened to that of Martins Bank, Ltd., as at present. The bank has over 570 branches and sub-offices, a paid-up capital of £4,160,042, a Reserve Fund of £3,507,872, and total resources of £101,962,502 (including figures of Lancashire and Yorkshire Bank).

The District Bank, Ltd., formerly known as the Manchester and Liverpool District Banking Company, Ltd., has its head office at Spring Gardens, Manchester. It was established in 1829, and has thus completed its century. In 1907 the bank acquired the business of the Lancaster Banking Company, established in 1826, and in 1916 it took over the business of the Bank of Whitehaven. The title of the bank was shortened in 1924 to its present form. In addition to its London office, the bank has over 390 branches. It has a paid-up capital of £2,212,000, a Reserve Fund of £2,000,000, and total resources of over £58,000,000.

The Manchester and County Bank, Ltd., was established in 1862. Its head office is in Manchester, around which city and district its business is principally centred. Because of its local connections, the bank's prosperity is naturally dependent to a certain extent on the condition of the cotton industry. It has about 190 branches, a paid-up capital of £1,092,040, and a Reserve Fund of equal amount.

The Union Bank of Manchester, Ltd., which has its head office in Manchester, was established in 1836. Since the beginning of this century the bank absorbed one or two smaller institutions, and in 1919 became affiliated with Barclays Bank, which now holds all its shares. The

bank has in all 165 branches, a paid-up capital of £750,000, and Reserve Fund of £675,000.

Williams Deacon's Bank, Ltd., the head office of which is at Manchester, is a combination of two banks, viz., the Manchester and Salford Bank, which was established in 1836, and Williams Deacon & Company, founded in 1771, which was one of the London Clearing Banks. The amalgamation of the two institutions took place in 1890, and in 1901 the name of the bank was altered to its present form. In 1907 the bank absorbed the Sheffield and Rotherham Joint Stock Bank, Ltd. Along with some other banks it has a shareholding interest in the Yorkshire Penny Bank, and the British Overseas Bank. The bank has over 200 branches, a paid-up capital of £1,875,000, and a Reserve Fund of £1,350,000.

In 1930 a fusion of interests took place between Williams Deacon's Bank, Ltd., and the Royal Bank of Scotland by an exchange of shares. The identity of Williams Deacon's Bank is, however, unaffected by this fusion, as its business will be carried on under the same name, and with its own board and staff as before.

IV

CHANGES EFFECTED BY LEGISLATION

Changes effected in regard to Note Issue by Act of 1844.—Change effected as regards liability of shareholders by Companies Act of 1879.—Nature of banking business transacted.—Moneys received on deposit and current account.—Bills discounted, and advances granted against security.—Remittances made by draft or transfer.—Credits opened and letters of credit granted.—Customers' securities received for safe custody.—Coupons, dividends, etc., collected on behalf of customers.—Savings Departments established.—Foreign Exchange business transacted.—Trustee and Executry business undertaken.—Stock Exchange Securities purchased or sold for clients.—No fixed agreement held in regard to rates and charges.—Latest mechanical appliances in use in execution of office work.

Two important changes affecting Joint Stock banks have been effected by banking legislation. The first of these resulted from the Bank Act of 1844, which prescribed that in the event of a provincial bank opening an office in or near London, it thereby forfeited its right of note issue. This clause did not extend to Scotland. The same measure also enacted that no bank formed after the date of its passing could issue its own notes. As the result of these enactments, all the English provincial banks eventually lost their right of note issue, which, to the extent of two-thirds of same, accrued to the Bank of England. It was the intention of the framers of the Act that the central institution should become the sole bank of issue in England, and this at length was brought about.

Another important change was effected by the Com-

panies Act of 1879, which provided that banks, previously unlimited, might register under the provisions of this Act as banks with limited liability, except as regards their note issue.

The passing of this latter measure resulted from the disastrous failures which took place during the bank crisis of 1878. As regards banks, the Act applied only to those which were already registered under the "Companies" or other Acts. It introduced the principle of "reserve liability," instead of unlimited liability as before, for all the debts of a company. In the interests of their shareholders, banks with unlimited liability registered under this Act and added the word "limited" to their title.

Nature of Banking Business Transacted

All the English banks receive money on deposit, and on Current Account operated by cheque. In London the banks allow interest on deposit account at varying rates which are regulated by the Bank of England rate of discount. The country banks have hitherto allowed a fixed rate of 2½ per cent. on deposits, which is independent of bank rate.

While it is the general custom of the London banks not to allow any interest on Current Accounts, in the provinces a percentage is allowed, and a commission charged on the turn-over.

Advances are made against approved securities, and bills are discounted for regular customers. The London bankers not only discount bills, but lend money to the discount brokers for this purpose. They also make short loans to stockbrokers against stocks, generally for not longer than a fortnight at one time.

Money may be remitted by draft or transfer, through the Banks' agents or correspondents, to any town in the United Kingdom. The banks can also open a credit at any city abroad where there is a bank on behalf of their customers. They also grant drafts and make remittances when required to all parts of the British Empire, and issue Letters of Credit for the use of tourists in foreign countries, which are available in any town where there is a bank.

Securities and valuables are received for safe custody, and the banks collect and receive payment of Coupons, also Dividends and Interest Warrants, on behalf of their customers. Such payments are, as a rule, credited direct to the Account of the Payee at the bank with which he deals.

The banks render material assistance to their customers in the flotation of new issues whether by Investment or by Trading Companies. They not only allow the bank's name to appear on Prospectuses, when satisfied as to the trustworthiness of the companies issuing same, but give every facility for their distribution among prospective investors. They receive payments on application for shares in these companies, as well as on allotments and all future calls, and grant bankers' receipts for same in each case. In a number of cases banks also act as registrars for companies.

In all the principal banks there are now Savings Departments established, at which the smallest sums from one shilling upwards are received on deposit. Pass-books are issued to depositors, and interest is allowed on deposits at a fixed rate of not less than 2½ per cent. The banks in this way become powerful agencies for the promotion of thrift, equally with the Trustee and Post Office Savings Banks, throughout all parts of the country.

During recent years, and more particularly since the close of the War, transactions in Foreign Exchange have become a feature of British banking. Most of the banks in London and the principal cities have offices, or departments, provided for this purpose. The business consists in the purchase or sale of foreign currency. Drafts in the currency of any foreign city can be granted in exchange for sterling at the current rate of the day. Buying and selling operations in Foreign Exchange are divided into two main categories which are described as "spot," and "forward." The former relate to operations requiring present delivery, and the latter to those for delivery of currency at an agreed future time. In negotiating this class of business for their customers and the public, banks are now taking into their own hands transactions which in pre-war times were dealt in mostly by foreign banks and exchange brokers.

In connection with the Export Credits Scheme of the British Overseas Trade Department, the Joint Stock banks render an important service to the British exporter. Under Government guarantee the banks are prepared to make advances to their customers who make application for same. Such advances are usually made to the extent of 75 per cent. of the face value of the Bill of Exchange drawn against an export of home manufactured goods.

Another extension of present-day banking consists in banks executing all kinds of Trust business on behalf of their customers. This includes their acting under Powers of Attorney, and assuming the office of Trustee or Executor under Wills, and discharging all the duties and responsibilities pertaining thereto.

There are other services rendered by the banks for their customers which are included under agency busi-

ness. These consist of such transactions as buying or selling of Stock Exchange securities through a broker; making up of Income Tax Returns and Claims; procuring opinions regarding the financial standing and responsibility of business firms and establishments; procuring Foreign Office Passports; payment of annual subscriptions to clubs and institutions, etc. All such services are not always charged for. Some of them are performed gratuitously.

A feature of the English system of banking consists in each bank acting independently in the matter of rates and charges. The only exception to this is in the deposit rate for the city and county of London which is fixed by the Clearing Banks, and depends on the Bank Rate. There is thus no bank cartel or general agreement amongst the English banks which is a feature of foreign banking, and is operative amongst the banks in Scotland.

For the speedy execution of office work consonant with present-day methods, the banks have availed themselves of the latest mechanical appliances. Typewriters, adding machines and ledger-posting machines are now extensively used in the larger offices of the banks.

V

LONDON AS A BANKING CENTRE

London, an international banking centre: its advantages as such.—London banks divided into three groups.—The London Clearing House; its purpose; number and divisions of clearings; the member banks; how settlements made.—Accepting Houses; nature of business transacted: specialise in foreign credit.—The Discount Houses; their relationship with the banks.—Class of bills negotiated.—The Stock Exchange; its two-fold connection with the banks.—Brokers as borrowers, and intermediaries.—Features of its constitution, and functions.—English banks with foreign branches.—The individual banks, and their special sphere of operations.

LONDON is not only the chief seat of English banking, it is also, more than any other city, a centre in which the banks of all countries are represented, either directly or indirectly. This is due partly to the fact that no restrictions are placed against foreign banks opening a branch office in London, if they desire to do so. The principal reason, however, for their desiring direct representation in London is owing to that city being a free market for gold, and to its advantages as a centre for international exchange. Added to this was the fact that Great Britain was essentially a creditor nation to whom payments had continuously to be made. Since 1918, and as a consequence of the War, the position of Britain in this respect has been materially altered. The United States of America, which was formerly a debtor country has now become a creditor State, not only for Great Britain, but for the other European States as well. As a consequence, New York is now in competition with

the London Money Market to a greater extent than formerly.

The banks in London are divided into three groups, viz., British banks, including the London offices of Scottish and Irish banks; the overseas banks, representing those doing business in Canada, South Africa, Australasia, and the East; and foreign banks, which embrace French, Italian, American, and those of other countries. German banks have not as yet re-opened their former offices in London.

The overseas group of banks form along with the British section—English, Scottish, and Irish—the British Bankers' Association. This Association was formed in order to protect the interests of the banks embraced under it, and the representatives who form its committee meet at stated periods to discuss matters which may call for their joint consideration.

The London Clearing House

One of the oldest institutions connected with the banks in London is the Clearing House, originally founded by the private banks of the city about the year 1775. It was not until 1854 that the Joint Stock banks were admitted to membership. The House formerly occupied premises in Dove Court, Lombard Street, and removed in 1834 to the present building in Post Office Court in the same street. As the name implies, the purpose of the Clearing House is to collect the cheques of the several banks on each other at one centre, instead of presenting them separately at the counter of the bank where payable, as was the original custom.

There are three Clearings which take place in the course of a day at stated times, and cheques are divided into three categories, termed "Town," "Metropolitan,"

and "Country," each one of which is cleared separately. The Town Clearing, which is the most important, consists of cheques drawn on the head offices and branches of banks in the city. The Metropolitan Clearing consists of cheques drawn on London banks and branches other than those included in the city group, while the Country Clearing consists of cheques on provincial branches. The Clearing to which any individual cheque may belong is indicated by having the initial letter T., M. or C. marked at the left-hand bottom corner of the cheque.

The members of the Clearing House consist at present of ten banks, viz., Barclays, Lloyds, Midland, National Provincial, Westminster, Martins Bank, Williams Deacon's Bank, National Bank, Glyn, Mills & Co., and Coutts & Co. In addition to the banks named, the Bank of England clears, but on one side only. That is to say, it collects the cheques which it receives from its customers through the Clearing House, but, with one or two exceptions, requires other banks to present cheques drawn upon it at the Bank of England. The banks which are members of the Clearing House not only clear their own cheques, but also the cheques of other banks, both town and country, for which they are agents, respectively.

The representatives of the various banks meet daily at the Clearing House at the stated hour, each representative with his bundle of cheques—duly listed and summed—on the other member banks, and receives from them at the same time their cheques as counter claims. At the end of the day a comprehensive balance is struck showing the banks which are debtor or creditor in the settlement to be made, and the amount payable in each case. In accordance with the result brought out, each Clearing bank then either makes or receives

payment through its account at the Bank of England of the balance due.

In addition to the London Clearing House, there are Clearing Houses established in the principal cities in the provinces, where the local banks clear the cheques drawn upon each other and on their branches in the immediate area. Cheques payable in provincial towns where there is no local Clearing House are sent to London to be collected through the Bankers' Clearing House in that city.

The amounts which pass through the Clearing House in cheques and bills on any one day are large, and the totals for a year are colossal, yet in the settlement of these transactions neither notes nor coin are at any time required. During the year 1928 the highest figure recorded for the London Clearing House for any one day was that of 31st December, which was £273,764,000. The grand total of cheques for the Clearing House for 1929 was £44,896,677,000, being an increase over 1928 of £691,948,000.

The weekly totals of cheques which pass through the London Clearing House, as also those relating to the principal provincial Clearing Houses, are regularly published.

The London Bankers' Clearing House, in addition, issues a monthly statement giving the average weekly balances of assets and liabilities of the ten Clearing Banks.

Accepting Houses

Closely allied to the London banks, though not bankers in the strict sense of the term, are the merchant bankers, commonly known by the name of Accepting Houses. They have been long established, and amongst their

present-day representatives are such well-known firms as Messrs. Hambro—now Hambros Bank Limited—Messrs. Schroder & Co., and the House of Baring.

The Accepting Houses are so called because of the nature of the business they transact in the monetary settlement of international trade. As is well known, exporters of goods from one country to another draw upon their purchasers by means of Bills of Exchange for the value of the merchandise exported. These bills, accompanied by Shipping Documents, are negotiated through the banks in the ordinary course, and for greater security are frequently accepted by merchant bankers of repute in London. The latter retain the documents until the bills are taken up by the drawees, either at maturity, or prior thereto, under rebate. For this service a commission is charged. The acceptance business of the merchant bankers relates for the most part to transactions with foreign countries. The overseas and colonial banks as a rule transact business of this nature between countries within the British Empire.

Merchant bankers may be said to specialise in foreign credit. They have their representatives and agents in foreign cities who are well acquainted with the financial standing and credit both of exporters and importers resident therein. Valuable information can be obtained through these sources which is available to the British trader. Some of their number, in addition to their rôle as Accepting Houses, export and import goods directly on their own account.

An important service frequently rendered by the merchant bankers consists in the flotation of loans on the London Market on behalf of foreign Governments and Corporations, when such loans are required for any special purpose.

The Discount Houses

In addition to the Accepting Houses in the London Market, and like them co-operating with the banks, are the Discount Houses, consisting of Joint Stock Companies and private establishments. They receive money on deposit on which they usually allow a higher rate of interest than is granted by the deposit banks.

The bills on the London Market may be divided into three kinds, viz., the inland commercial bill, the foreign bill of exchange, and the Treasury bill. The first mentioned represents bills drawn by wholesale houses on retail dealers. These bills, though much in evidence in former times, are now a diminishing quantity, as traders who have funds available generally prefer to pay for their purchases by cheque. Such bills when discounted by the London banks are as a rule held by them in their bill cases until maturity, and are not re-discounted.

The foreign bill of exchange forms the common medium of payment in settlement of all kinds of international trading transactions. Such bills are always in demand by Discount Houses, as they usually bear, by acceptance or endorsement, the name of a bank or firm of good standing. The discount broker will discount these bills or lend money on them at the finest rates, and will re-discount or borrow money on them from the London banks when he is in need of available funds. Such advances are not usually for longer than a week at one time.

The Bill Brokers call at the principal banks each morning at the opening of business. It is at this time that they ascertain whether their money is allowed to continue or is required by the lending bank.

The Treasury bill constitutes a mode of borrowing

resorted to by the Government for the purpose of obtaining funds when required. The issue of these bills is regulated by the Act 40 Vict. C. 2. (1877), in which year they were first issued. Treasury bills form part of the unfunded debt of the country, and are of the denomination of £5000 and £10,000, each bill having a currency of three months. They are issued by tender to banks and Discount Houses, and tenders must be for amounts of not less than £50,000. Treasury bills do not carry interest, but are tendered for at a discount. They are popular with the banks as they provide a convenient way of using their surplus cash balances, and holding them when thus converted in readily realisable form.

The Stock Exchange

Although occupying a different relation to the banks on the London Market from that of the Accepting and the Discount Houses, the Stock Exchange through its members has close connection with them. This connection may be said to operate in two ways. Stockbrokers obtain from the banks of which they are customers short loans usually not longer than a fortnight, or "from Account to Account" as it is termed. These loans are made against approved securities with a sufficient margin to provide against depreciation. The banks not only make advances to the Stock Exchange in the way stated, but also buy and sell through their brokers Stock Exchange securities of various descriptions. They carry out these transactions not only on their own account, but also on behalf of their customers. The description of securities which banks invest in for temporary purposes is usually gilt edged and non-speculative. For their customers they accept on the latters' responsibility the orders entrusted to them,

whether to buy or sell, and on such transactions they share one-half of the commission with the broker.

The banks require a margin of from 5 to 20 per cent. on the value of the security lodged against brokers' loans according to the nature of the security in each case. The normal rate for such advances is one-half of 1 per cent. over bank rate. These short loans made to stockbrokers by the banks, form part of their assets described as "Money at Call and short notice."

It is interesting to note that there are records of the Stock Exchange having been existent in London as early as 1773, though it was not until 1801 that it was established on its present basis. The institution is vested in two bodies, the managers and the committee, the former representing the shareholders or proprietors, and the latter the members or subscribers. The managers, nine in number, who are elected by the shareholders, fix the charges for admission of new members, and appoint most of the officials. The committee, which consists of thirty, elected annually by the members from their number, controls all Stock Exchange business, and administers the rules and regulations. There are over 5000 members in all.

A feature of the London Stock Exchange, which differentiates it from provincial and other Stock Exchanges, is the division of functions between brokers and jobbers. The jobber works on the floor of the house and deals only with the broker. The broker, on the other hand, takes orders from the outside public and buys from, or sells to, the jobber.

English Banks with Foreign Branches

Up to the beginning of this century, English banks confined their business to the home country, and had

no direct representation abroad. The first of the banks to make a new departure in this respect was Lloyds Bank, which in 1911 acquired the business of Armstrong & Co., bankers in Paris and Le Havre. In 1917 a joint arrangement was made between Lloyds Bank and the National Provincial Bank, whereby, under the title of Lloyds and National Provincial Foreign Bank, Ltd., their business on the Continent has since been carried on. The bank have several branches in France, also at Brussels, Antwerp, and Geneva.

Lloyds Bank by its purchase of the business of Cox & Co., bankers and Army agents, took over their branches in India and Burma, which they still carry on. Though not directly represented, Lloyds Bank has shareholding interests in banks doing business in South America, West Africa, and New Zealand.

The National Provincial Bank, in addition to its joint interest with Lloyds Bank in Continental banking, is represented in India through affiliation with Grindlay & Co., who have several branches in that country.

The Westminster Bank through its auxiliary, the Westminster Foreign Bank, has representation both in France and Belgium.

Barclays Bank have also important oversea connections. In France, under the title of Barclays Bank (France) Ltd., they own several branches. In Italy, where they are established under Italian laws, as Barclays Bank (S.A.I.), they have branches in Rome and Genoa.

The bank have a controlling interest in Barclays Bank (Dominion, Colonial and Overseas), which was formed in 1925 by the fusion of three separate banks, viz., the Colonial Bank (operating in the West Indies), the Anglo-Egyptian Bank, and the National Bank of South Africa. Recently, Barclays have secured a footing in Canada.

They have obtained a Charter from the Canadian Government authorising them to establish an auxiliary in the Dominion, to be known as Barclays Bank (Canada). The bank have opened an office in Montreal, and began business there on 2nd September, 1929.

It will thus be seen that several of the large English banks have attained, either directly or indirectly, to world-wide connections. The only member of the "Big Five" limiting its connection to the British Isles, without having as yet any branch in foreign countries, is the Midland Bank. While the Midland Bank is not directly represented abroad, it has agents and correspondents in all the principal cities, for whom, on the other hand, it acts as London agent, and in this way a mutual service is rendered without competition.

VI

THE SAVINGS BANKS

(1) Trustee Savings Banks: when first established; constitution and management: deposit and investment accounts: legislation affecting Savings Banks.
(2) The Post Office Savings Banks: a Government institution; their advantages to small depositors; co-extensive with the Post Office system.—The Banks, and Credit to Agriculture.—The Agricultural Credit Act of 1928: its purpose and principal provisions.—Long Term Credits; Short Term Credits.—The Agricultural Mortgage Corporation: the banks co-operating, and their function.—Result of first-year's operations under the Act.

WHILE occupying a sphere distinct from that of the Joint Stock banks, the Savings Banks of the country perform an important service as banks of deposit. They consist of two classes, namely, Trustee Savings Banks and Post Office Savings Banks, and both of these institutions were formed with the object of promoting thrift and habits of saving amongst the people generally.

THE TRUSTEE SAVINGS BANKS

The first in priority of these institutions as regards formation was the Trustee Savings Banks. The earliest known bank of this description in England is said to have been opened at Wendover, Bucks, in the beginning of last century by the Reverend Joseph Smith. Banks of a similar nature began to be formed in other towns throughout England, until there are now over 300 Savings Bank offices in all, with total deposits of nearly £100,000,000.

The property and funds belonging to each bank are vested in the name of trustees, chosen from the town or locality in which a Savings Bank is established, who give their services gratuitously. Each bank is under the charge of a manager or actuary, who is a paid official, and is responsible to the trustees for his intromissions.

Sums are received on deposit from a minimum of one shilling to the extent of £500 in any one year, and interest is allowed at a fixed rate of 2½ per cent. A pass-book, which contains a record of deposits and withdrawals, is issued to each depositor. Home safes, consisting of small boxes for the reception of the smallest sums, may be received on application by a depositor at any Savings Bank.

The moneys lodged on deposit are lent to the National Debt Commissioners who allow interest on all such sums. There is thus Government security for the depositors in Trustee Savings Banks for all moneys lodged by them in these institutions. Special investment accounts may be opened in these banks on which higher rates of interest are allowed than in the Ordinary Department.

Various statutes have been framed dealing with the control and management of Trustee Savings Banks, the first of which was passed in 1817. By the latest statute, termed the Savings Bank Act 1929, several important changes have been made in the law affecting these institutions. New powers are granted to the trustees, with the approval of the National Debt Commissioners, in regard to the investment of funds and the lending of same, which may have important issues.

The Post Office Savings Banks

These banks, formed in conjunction with the Post Office, were not established until 1861, the late Mr.

W. E. Gladstone, who was then Chancellor of the Exchequer, being their originator. They are thus a distinct Government institution, and the depositor in every case has the satisfaction of knowing that he has Government security behind his deposit. Sums are received on deposit from one shilling upwards, and a pass-book for the record of transactions is issued for the smallest deposit. Interest is granted at the rate of 2½ per cent. Withdrawals may be made on demand without previous notice for sums up to three pounds at one time.

The advantage of the Post Office Savings Bank as a thrift agency lies in the fact that wherever a Post Office is established, even to the remotest parts, facilities are provided for the opening of a deposit account for any sum, and to any person without distinction.

The total amount at credit of depositors in the Post Office Savings Banks of the United Kingdom at 31st December, 1930, was approximately £290,000,000.

The Banks and Credit to Agriculture

Although agriculture has long been one of the principal English industries, there have been no land banks established, such as are found in some other countries for the purpose of supplying credit to those engaged in it. The same need may not probably have been felt in England for such institutions, as farmers requiring credit obtained it in the usual way through the ordinary banks and other sources which were available.

Owing to heavy taxation, resulting from the late War, causing depleted incomes, owners of landed property were obliged in numerous instances to place their lands on the market for sale. The tenant farmer in many cases was then faced with the alternative of having to purchase his farm or relinquish his tenancy. The Government

realised its obligation to assist the agricultural interest as far as possible, and with this object in view introduced a measure termed the Agricultural Credits Act, to deal with the new situation. The Act passed through both Houses of Parliament, and came into operation on 1st October, 1928.

The Agricultural Credits Act, though it does not establish land banks, yet makes provision both for long-term credits and short-term credits to farmers, and in the granting of these facilities the existing banks are given the opportunity of co-operating.

Long Term Credits

The Act provides for the formation of a Mortgage Company having for its principal objects, (1) the making of loans on mortgages of agricultural land, and (2) the making of loans under the Improvement of Land Acts for Agricultural Purposes. On the incorporation of such a company the Minister of Agriculture and Fisheries is authorised to make advances thereto for the purpose of establishing a guarantee fund to an amount not exceeding £750,000, but at no time exceeding the actual paid-up capital of the company. Loans made to the farmers, or landholders, on the security of mortgage shall in no case exceed two-thirds of the estimated value of the mortgaged property. These loans, termed "Long Term Credits," are repayable by equal yearly or half-yearly instalments of capital and interest, spread over a period not exceeding sixty years.

The Mortgage Company or Corporation is empowered to issue debentures to the public in order to raise money for loans. The Treasury may subscribe to such issue to an amount not exceeding in the aggregate £1,250,000. These debentures will rank as a Trustee Security, and the

interest on them, as well as the share capital of the Corporation, will not exceed 5 per cent.

The shareholding banks act as agents for the Mortgage Corporation and receive applications for long-term credit loans. The advances under these credits, if approved, are made by the Corporation, through the banks. The following are the shareholding banks, viz., The Bank of England, Barclays Bank, Lloyds Bank, The National Provincial Bank, The Westminster Bank, Martins Bank, The District Bank, Williams Deacon's Bank and Glyn, Mills & Co.

The Corporation, termed the Agricultural Mortgage Corporation, Ltd., which was duly formed under the Act, began business in January 1929, with a share capital contributed by the aforementioned banks of £650,000 in shares of one pound each. The Company made a first issue of 5 per cent. debenture stock of £5,000,000, and an additional issue of £3,500,000 on 7th May, 1930.

Under the agreement of 24th January, 1929, between the Minister of Agriculture and Fisheries and the Company, the Treasury has paid a sum of £650,000, which constitutes the Reserve or Guarantee Fund.

The Chairman of the Board of Directors for the present is Sir W. H. N. Goschen. Sir George Barstow, a member of the Board, is the nominee of the Treasury, and Sir Otto Niemeyer, another member, represents the Bank of England.

Short Term Credits

For the obtaining of Short Term Credits, the Act provides that a farmer, by instrument in writing, may create in favour of a bank as lender a charge on all or any of his farming stock and other agricultural assets

belonging to him, as security for any advances to be made. Such a charge may be either a fixed charge or a floating charge, and in either case may be given to secure a specific loan or an advance by way of overdraft.

The property affected by a fixed charge may include live stock and agricultural plant or machinery. The property affected by a floating charge extends to farm crops and produce, also live stock, including poultry, etc., and has the same effect as though the charge had been created by a duly registered debenture issued by a company. A fixed charge gives to a bank, in default of payment by the borrower, a statutory right to sell the property by auction, so as to liquidate the debt due to them.

A farmer is not precluded from selling any property or goods covered by a charge in favour of a bank, but he is under obligation to account to the bank for the proceeds, unless specially provided by the terms of the charge or contract. Should the farmer purchase stock with the money received, such stock being substituted for what has been sold under a charge, he need not convey the proceeds to the bank.

The Act provides where in certain cases a floating charge may become a fixed charge, as, for example, when a receiving order in bankruptcy is made against a farmer, or the death of a farmer who may have a loan from the bank, or the dissolution of a partnership when the property under a charge belongs to the partnership as such.

It is provided by the Act that every agricultural charge must be registered within seven clear days after its execution. Registration is effected by sending by post to the Land Registrar at the Land Registry a memorandum of the instrument creating the charge along with the prescribed fee. The Register may be inspected, and

copies taken from it, but the name of the borrower and the nature of the charge are not to be published. Agricultural charges shall, in relation to one another, have priority in accordance with the dates on which they are registered.

Property included in a charge is not protected in cases where there is a legal claim for distress for rent, taxes or rates. Such claims will always have priority.

Although the Agricultural Credits Act has only been in operation for a comparatively short period, it has already proved itself a useful measure, and the Agricultural Mortgage Corporation, Ltd., established under it, has met a felt want. This is shown by the Report of the first Annual Meeting of the Corporation, held on 16th April, 1930. Applications for loans by farmers were received from all parts of England and Wales to the number of 2692 and amounting to a total sum of over £9,000,000. Loans of as small an amount as £100 have been granted, and advances have been made on properties not exceeding two or three acres. The total mortgage loans completed up to 31st March was £4,168,590, secured on properties valued at £6,605,495.

VII

SOME ASPECTS OF PRESENT-DAY BANKING

Scope of Mercantile Law

Scope of Mercantile Law: Bills of Exchange Act; The Companies Acts.—The popularity of the cheque. Growth of the thrift habit; factors contributing thereto.—Adaptability to customers' needs: various instances; latest examples of such; provision of night safes; Credit Slip Clearing.—The Bank personnel; importance of efficient staff; their prospects; aids to success. —Institute of Bankers and its functions.—Banks and their Staffs' interests.—Banks and Industry: their material contribution thereto.—Objections to their policy considered, and dealt with.

Reference has been made to the influence of legislation on English banking in regard to the constitution of banks and the limitation of their powers of issue, etc. Mercantile Law in its application to banks may also be said to have regulated in great measure the procedure to be adopted in regard to the negotiation of bills, cheques, and other documents in daily use among them. The statute which governs bank practice in these matters is the Bills of Exchange Act, passed in 1882, which codified in one Act all previous statutes on the subject, and applies equally in all its provisions, save one, to the whole of the United Kingdom.

The Act defines what constitutes a bill of exchange, cheque, and promissory note, and their requisites as regards form, and prescribes the rules to be observed in relation to their due negotiation in each case. This Act also deals with a custom peculiar to British banks,

namely, that of crossing cheques, which was introduced in the drawer's interest to secure safety and prevent fraud in negotiation.

In the Bills of Exchange Act there are in all 100 sections or clauses, and it is interesting to note that the only one differentiating in the application of the law between England and Scotland is the 53rd Section. In accordance therewith the presentation of a bill or cheque at a bank, in England, does not operate as an assignation of the funds of the drawer in favour of the payee. In Scotland, on the other hand, the presentation of a cheque does so operate, provided there be funds with the drawee to meet same, and unless previous notice has been received to stop payment.

This Act, which relates to the various instruments of credit in daily use among the banks, is of great importance, and a knowledge of its provisions is indispensable to their proper negotiation. This is shown by the fact that since the Act was passed litigation has frequently taken place between banks and their customers in regard to various points in dispute arising in the course of business.

Another important statute affecting bankers recently passed is the Companies Act of 1929. The increase of Joint Stock Companies, comprising not only Investment and Trust Companies, but those formed through the conversion of a private partnership into a limited company, is one of the features of the business life of the period. All such companies are subject to the statutory regulations of the Companies Acts, which that of 1929 was intended to consolidate and amend. The provisions of these Acts are far-reaching and affect the relationship between banks and their customers, who may be Joint Stock Companies, in various respects. A responsibility

may therefore be said to rest with banks to see that their practice in this relationship is in conformity with company law as now constituted.

The Popularity of the Cheque

In contrast to what obtains in France and some other countries, the bank cheque is increasingly used in England in payments of all kinds in preference to bank notes. The figures of the London Clearing House giving the total amount of cheques cleared through its agency yearly, which show steady increase, are proof of the popularity of the cheque, if such were needed. An increase in the use of cheques indicates a growth in the number of operative accounts opened year by year with the various banks. Seeing that the stamp duty on each cheque is now two pence instead of one penny, as formerly, the great extension in the use of the cheque appears the more surprising. The explanation of such a result is no doubt found in the fact that the advantages of having a bank account fully compensate for any apparent drawbacks.

Growth of the Thrift Habit

Another aspect of English banking, and for long characteristic of it, is the readiness shown by the people generally to deposit money with the banks, using the word in its widest sense. The increase of deposits year by year, as a rule, not only in the Joint Stock banks, but in the Trustee and Post Office banks as well, is an encouraging feature in the economic life of the people, from whatever point it may be viewed. There are two factors which account for this growth of deposits. One of these is the sense of security present with the depositor in the safety of the bank in which he makes his deposit.

The other factor is the knowledge that it is to his advantage to make such deposit, because of the return he will receive in the way of interest which will accrue and be added thereto. The habit of thrift and saving is good, but that of depositing what is saved, be it little or much, in a bank is better, as it thereby increases the amount of accumulated capital in the country, and materially assists credit which is an essential element in the successful carrying on of the nation's industries.

Although not having direct connection with the ordinary banks, an institution worthy of mention, because of its contribution in the promotion of thrift, is the National Savings Movement. It had its beginning during War time, and through the agency of its various associations in all parts of the country, by whom Savings Certificates are issued to purchasers, it has since shown steady growth. Instead of competing with the banks, the National Savings Movement, through its committee, has rather co-operated with them in the fostering of the thrift habit.

Adaptability to Customers' Needs

Reference has been made to the various services now rendered by the banks to their customers. It has been shown that the latter can readily obtain payment of their cheques if their credit is good, get money remitted to any place they desire, and be furnished for their personal use, when they may require, with a world-wide Letter of Credit available in any town where there is a bank. Reference has also been made to the banks' willingness at any time to become custodians of their customers' securities and valuables, free of charge, and to act as their executors in wills and settlements. By these and such-like services the banks may be said not only to gauge their customers'

monetary requirements, but at the same time make it their endeavour to meet them as far as possible. One of the latest evidences of such endeavour is seen in the provision of night safes by a number of the banks in the larger cities. They thereby provide facilities for their customers who may desire to deposit their drawings in cash, or its equivalent, received after business hours. The *modus operandi* is briefly described as follows. A customer who may wish to have access to his bank's night safe possesses a key which will open the safe from the outside. The bag or receptacle containing cash or cheques to be paid in is deposited in a chute and slid down to the safe inside, where it remains over night. The bag is retained by the bank until the customer calls the following day, when he can personally pay in the money. Night safes provided by banks for their customers are a great convenience for such as dislike to retain their cash and valuables in their own possession over night.

A more recent development than the institution of night safes is that of the Credit Slip Clearing, as it is termed, which has been adopted by all the Clearing banks. The main object of the scheme is to give assistance to customers of a bank in a large way of business by facilitating their settlement of monthly accounts and payments, thereby making for greater economy.

Under this new method, instead of settling accounts monthly by transmitting separate cheques to individual creditors, the customer will have to write out one cheque only in favour of his bank for the total of his payments. By means of Credit Slips which the customer sends with his cheque to his bank, each of which contains the necessary particulars, the latter undertakes through its clearing and transfer system to credit the payee at his

own bank, in the same way as though he had received his debtor's cheque direct.

The Credit Slips are exempt from stamp duty, so that under this scheme a bank customer who may adopt it is saved the stamp charges on cheques as well as postages which he formerly incurred, his only outlay consisting of a small commission charged by his bank to cover their costs.

THE BANK PERSONNEL

It is increasingly realised that the success of our present-day institutions, both commercial and financial, depends in no little measure on the staff employed. This applies to banking as much as to any other line of business. To obtain the best type of young men, the prospects must be attractive. It used to be considered that banking as an occupation or profession was monotonous and uninteresting, and that the salaries to beginners were small. As regards the latter objection, there may have been in a number of cases good grounds for such. There is a consensus of opinion, however, that the salaries of bank officials in all grades will now compare favourably with those received in other mercantile institutions. In addition to salary, there is the prospect of promotion to every young man possessing ability and a good education. Many who have attained the highest positions in our banks began by serving their apprenticeship at a branch office, which shows that promotion as a rule is gained by merit.

The Institute of Bankers, which was founded in 1879, has contributed in no small degree towards the educating of the junior members of the staff in the various banks in the theoretical principles of their business. It has done so during the past half-century since its establishment by

means of lectures on banking, economics, and cognate subjects, and the granting of prizes and diplomas to candidates who successfully pass its prescribed examinations. At its rooms at 5 Bishopsgate, London, the Institute is equipped with a well-furnished library for the use of its members and students of banking. In this connection it may be stated that the Institute of Bankers in Scotland and the Institute of Bankers in Ireland both perform a similar service for the younger members of the profession in their respective countries.

Unlike what obtains among banks in some countries, young men who enter on a banking career in England usually do so with the intention of continuing therein, and do not as a rule change later to another profession. Neither is it customary for English banks to give responsible posts in their service to those who have not had a previous bank training.

With the view of enlisting more effectually the interest and co-operation of members of their respective staffs in the business of the bank in which they may be employed, banks give perquisites or emoluments in various forms. Nearly every bank now has a pension fund to provide an adequate retiring allowance for members of its staff who may have completed a definite period of service. Considerable sums are set aside each year from a bank's profits to augment this fund.

In addition to the provision of a pension scheme which is in many cases on a non-contributing basis, banks give other pecuniary advantages to members of their respective staffs. This may consist of a bonus on salaries or a share of bank profits, or it may be the offer of shares or stock of the bank to its officials, obtainable on suitable terms. Such methods are all to the good, being of the nature of co-partnership, and are calculated to promote

the feeling of identity of interest between employer and employee. In this connection, the institution of Bank Councils, now inaugurated among banks, serves to the same end. At these meetings of Council, held periodically between representatives of the directorate and management on the one hand and those of the staff—or rank and file, to be precise—on the other, matters bearing on the interests of both the bank and of the staff are amicably discussed, and the spirit of good-will and proper understanding are thereby promoted.

Banks and Industry

The complaint is not infrequently made that our banks ought to do more than they have hitherto been doing in the way of assisting the industries of the country by the supply of credit. Such complaints, however well intentioned, are often made through lack of knowledge. As has been frequently pointed out by those in a position to know, our banks do materially help industry in many ways. One has only to examine the figures of a bank's published balance-sheet to find that such is the case. These accounts show in many cases that the proportion of loans and advances averages from 50 to 60 per cent. of a bank's deposits.

Those who think that our banks should go further in this direction point to the banks in Germany and the great assistance which they are said to render to industry. While it is the case that banks in Germany are in a number of instances more closely allied to industry than our banks, by having capital invested in industrial concerns and sharing in their control, it does not follow that our banks should adopt the policy of the German banks in these respects. The customs of both countries and their traditional policy are not the same. The bulk of

deposits in German banks are not payable on demand as the greater part of deposits in British banks are, but are lodged for varying periods. Neither is their cheque system developed to the same extent as that of this country. Those banks are therefore in a position to lend their money in long-term credits to industry in a way that our banks would not feel justified in doing.

The policy of our banks has always been to make advances to trade and industry for current and seasonal requirements and for short periods, and not to lend capital for an indefinite term. Banks have sometimes to take over buildings and machinery in security for a debt when they cannot help themselves, but their practice has always been to obtain security, as far as possible, in easily realisable form. Departure from this policy is attended with risk, as the experience of some banks in the past unfortunately proved. Our bankers, while actuated with the desire to aid the trade and industry of the country to their utmost, realise at the same time that their position is one of trust. They are not only custodians, but trustees as well, for the great body of depositors, a large proportion of whom, it is safe to say, have entrusted to them all the money they possess. Bankers therefore never forget that this money, or the greater portion of it, being repayable on demand, it is incumbent on them to maintain a considerable margin in cash or in liquid form.

II. THE SCOTTISH BANKING SYSTEM

VIII

Its distinct place in British System.—The first bank, and when established.—Features of Scottish System.—Absence of restrictions.—Freedom of note issue.—Option clause in notes.—Private banks; earliest established: John Coutts & Co.; Glasgow Ship Bank; Arms Bank; Livingston & Co., Aberdeen; George Dempster & Co., Dundee.—Termination of period of private banking.

BANKING in Scotland has since its beginning occupied a distinct place in the British system. Prior to 1695, when the first bank—the Bank of Scotland—was formed, the country had no banking history. Since then the record has been unique, reflecting in no small measure the characteristic qualities of the people.

Mr. J. Simpson Fleming, a distinguished Scottish banker of his time, has said that the most striking features presented in the Scottish system are the absence of any one bank pre-eminent from its connection with the State, the absence of private banks and of small local banks.

While it is the case that private and local banks have long since ceased to do business in Scotland, they flourished for a considerable time during the early period of Scottish banking. There was no restriction in the Northern Kingdom to the formation of these banks such as existed in England, either as regards the number of partners or the right of note issue. Because of this liberty, private banks were formed both in the principal cities and in a number of the towns. The course of

events proved, however, in the history of a number of those private or local banks that freedom of note issue, without proper regulation, had its disadvantages. The liberty was frequently abused, and notes were issued not only by the banks, but often by tradesmen and employers of labour, and such notes sometimes for sums as small as one shilling Scots. The large banks would appear not to have issued at any time notes for a less sum than five shillings.

All the banks at one time or other resorted to the use of the "option clause" in their notes which gave the issuing bank the liberty of postponing payment, extending frequently until six months after presentation. Fortunately legislation put a stop to these abuses. By an Act passed in 1765, it was required that all bank notes should thereafter be made payable on demand or presentation, and that no notes should be issued for a less sum than twenty shillings sterling.

PRIVATE BANKS

One of the first and most eminent of the private banks in Scotland was that of John Coutts & Co., Edinburgh, which was formed about the beginning of the eighteenth century. The firm were originally merchants, and banking became an adjunct of their business at a later period. In 1773 the name of the house was changed to Sir William Forbes, James Hunter & Co., and so continued until 1838, when it amalgamated with the Glasgow Union Bank, afterwards the Union Bank of Scotland. Another important Edinburgh private bank was that of Ramsays Bonars & Co., which carried on business under that name from 1807.

The two earliest private banks in Glasgow were the Ship Bank—the business of which was carried on under

that name by the firm of Dunlop, Houston & Co.—and the Glasgow Arms Bank, associated with Cochran Murdoch & Co. The former, which began business in 1749, was indebted for its support from the start to the Bank of Scotland, and the Glasgow Arms Bank, formed the following year, received the patronage of the Royal Bank.

The first of the provincial private banks to be formed was the bank of Livingstone, Mowat & Co., Aberdeen, which began business in that city in 1749.

More important, and of longer continuance than the last mentioned, was the Dundee bank of George Dempster & Co., formed in that city in 1763, and carried on for a century. The bank is sometimes referred to as Boase's Bank, because of its connecton with Mr. C. W. Boase, who for a period of twenty-seven years ably managed its affairs and afterwards wrote its history under the name of "A Century of Banking." It was more of the nature of a Joint Stock than a private bank. The original partners numbered thirty-six, and the bank's nominal capital was £12,600. In 1864 the bank was merged in the Royal Bank of Scotland.

In course of time all the private and local banks ceased to do business. Several of them failed owing to mismanagement or inability to pay their notes when presented for payment. Others of their number, through stress of competition with the large Joint Stock banks, either amalgamated with them or ceased to do business.

IX

JOINT STOCK BANKING

Formation of Bank of Scotland; how constituted.—Its term of monopoly: nature of its early business; continued progress.—The Royal Bank of Scotland: when and how established; opposition met with.—Stages in Bank's development: present strong position.—British Linen Bank: its early connection with linen trade.—Features in progress to present position.—The Commercial Bank of Scotland Limited: when formed; its branch extension policy; increase of share capital and form of same; large note circulation.—The National Bank of Scotland Limited: a combination of three companies; later absorptions; direct representation in London.—Union Bank of Scotland Limited: combination of several banks; expansion and affiliation; present position.—The Clydesdale Bank Limited: its branch system, with English connections; absorption of other banks; later developments.—North of Scotland Bank Limited; a combination of two banks; important connection with north-east of Scotland; its English affiliation.—Adoption of principle of limited liability by certain banks.—Banks of Issue in 1845 contrasted with present number.

THE first Joint Stock bank established in Scotland was the Bank of Scotland in 1695, in virtue of an Act passed by the Scots Parliament in that year. Like the Bank of England, founded the previous year, which was granted a monopoly of banking, the Bank of Scotland obtained a like privilege as regards Scotland, extending to a period of twenty-one years. This monopoly was happily not renewed, so that the way was left open for the formation of other banks. No sooner had the bank commenced business than it began to establish branches in Glasgow and other towns, but owing to the expense entailed, they were temporarily withdrawn. The bank's business at first consisted chiefly of lending its capital and issuing

its notes. It was not until a later period that sums were received on deposit. The original capital of the Bank of Scotland was twelve hundred thousand pounds Scots, equal to £100,000 sterling. This capital has since been increased from time to time, until it has attained the present figure of £1,500,000, with a Reserve Fund of £2,100,000.

The bank's business has shown steady growth and expansion during its long history of over two hundred and thirty years. In 1868 it purchased the business of the Central Bank of Scotland, the chief office of which was at Perth, and in 1907 took over the Caledonian Bank, whose head office was in Inverness. As the result of these amalgamations, the bank's position in Central Scotland and in the northern parts was considerably strengthened. To-day the bank has a branch system in Scotland embracing 237 offices, in addition to its head office and two London offices, with total resources of over £40,000,000.

It was not until 1727 that the next Joint Stock bank was formed in Scotland. This was the Royal Bank of Scotland, which owed its formation to the Equivalent Company, the latter having derived its origin from the Treaty of Union in 1707. The original capital of the Royal Bank consisted of £111,347, being the amount of stock transferred from the Equivalent Company, which was added to by Calls on the bank's shareholders at the time to the extent of 20 per cent.

As was not unnatural, the Bank of Scotland watched with jealous eye the advent of a rival, on what had hitherto been its exclusive domain in the sphere of banking in Scotland. A spirit of rivalry was maintained between the two banks for a number of years, and incidents developed which were not lacking in humour

or pathos. Wiser counsels at length prevailed, and the spirit of rivalry gave place to that of friendly competition as they came to realise that there was ample room for both banks to do business in the same sphere.

By successive Charters the capital of the Royal Bank was raised to £2,000,000, and by its latest Charter, granted in 1920, to £2,500,000. A further addition to capital followed the fusion of interests with Williams Deacon's Bank, raising it to its present figure of £3,362,442, with a Rest or Reserve Fund of £3,580,926.

To the Royal Bank of Scotland belongs the distinction of introducing the Cash Credit System in 1728, by which the bank found a profitable outlet for its note issue. During the 200 years and more of its history the Royal Bank has shown continued growth and expansion equally with its contemporary the Bank of Scotland. As previously noted, in 1864 the Royal Bank took over the business of the Dundee bank of George Dempster & Co., which had a good connection in that city and district. An important step was undertaken in 1924 when the Royal Bank purchased the old-established banking business of Drummonds, Charing Cross, London. A much more important step, however, has been the acquirement of the shares in Williams Deacon's Bank in 1930, followed later on by the acquisition of the Bank of England branch at Burlington Gardens, London. The Royal Bank has now four offices in London and over 240 branches in Scotland, and with its total resources of £61,561,346 is *facile princeps* among the Scottish banks.

The third oldest Joint Stock bank to be formed in Scotland was the British Linen Company. As the name implies, the Company was originally established for the purpose of carrying on the linen trade in Scotland, and was granted a Charter for this purpose in the year 1746.

The business of banking was after a time added to their original business, and in 1752 they began to issue their own notes. In course of time they discontinued the linen trade, and since 1849, when they obtained a new Charter, their business has been exclusively that of banking. By a later Charter granted in June 1906, the word "Company" was dropped from their title, and the name altered to that of British Linen Bank.

The original capital of the bank was £100,000, and by additions and calls on the shareholders from time to time it has been increased to the present figure of £1,250,000, with a Reserve Fund of £1,900,000. Besides the head office in Edinburgh, the bank has over 200 branches in Scotland, an office in London, and a branch in Northumberland at the town of Wooler.

In 1919 the British Linen Bank became affiliated to Barclays Bank through the purchase of most of its shares by the latter institution.

The three banks mentioned are the oldest of the Scottish Joint Stock banks, and, in virtue of their Charter of Incorporation, they all possess the privilege of limited liability.

Of the remaining five banks, the Commercial Bank of Scotland, which is the oldest, was formed in November 1810, with a paid-up capital of £450,000. It obtained its Charter of Incorporation in 1831, and was granted a supplemental Charter by Royal Warrant in 1925. It was made a rule in the bank's constitution that no private banker could hold the office of director. At an early period in its history the bank adopted a policy of branch extension, and has now a branch system extending to all parts of Scotland.

The capital of the Commercial Bank was raised from £1,000,000 in November 1919—at which figure it then

stood—to £1,750,000, by the creation and issue of new shares, termed " B " shares of £1 each fully paid. It was further increased in April 1929 to the present figure of £2,250,000, by the creation and issue of new " A " shares of £4 each. In addition to the aforesaid capital, the bank has a Reserve Fund of £2,850,000. The bank's branches and sub-branches in Scotland number 337 in all, in addition to its two London offices, and it has thus the largest branch system of any of the Scottish banks. It has also the largest note circulation among their number, the amount of such at its last balance in 1930 being £3,418,000.

The National Bank of Scotland was founded in 1825 and is a combination of three banking companies, all of which were separately in process of formation towards the end of 1824. The bank had originally a paid-up capital of £500,000, which was increased in 1843 to £1,000,000 and in 1920 to the present figure of £1,100,000, and has in addition a Reserve Fund of £1,550,000. It received its Charter of Incorporation in 1831, and was registered as a limited company in April 1882. During its history the bank absorbed two local Joint Stock banks, viz., the Commercial Banking Company of Aberdeen in 1833 and the Perth Union Bank in 1836. Like the Commercial Bank, it early began a policy of branch extension, and had opened about a dozen offices in various towns during the first year of its establishment. The National Bank was the first among the Scottish banks to open an office in London, which it did in 1864. An important step was taken in the bank's history in 1918, when it became affiliated to Lloyds Bank by an exchange of shares. In addition to its head office and two London offices, the bank has 175 branches and sub-branches in Scotland.

The Union Bank of Scotland, originally the Glasgow Union Bank, was established in 1830 and in 1930 celebrated its centenary. The name of the bank was altered to its present form in 1843 and, as it signifies, represents the combination of a number of banks, both private and Joint Stock. Amongst the former, the most important was the bank of Sir William Forbes & Company, Edinburgh, joining the larger institution in 1838, and among the latter were the Banking Company of Aberdeen—which joined the Union in 1854—and the Perth Banking Company three years later, viz., in 1857. The bank's original capital was £350,000, since increased to £1,200,000 as at present. It has in addition a Reserve Fund of £1,800,000.

The bank's centenary was marked by the increase of the bank's capital by £200,000 in the form of new shares of £1 each to be known as "B" shares. £100,000 of these shares were issued as a bonus to shareholders on the bank's register, and the balance at a price of £3 per £1 share. The premium of £2 per share amounting to £200,000 in all was added to the bank's Reserve Fund.

The Union Bank is closely associated with the British Overseas Bank in which it has a shareholding interest. In December 1927, the bank removed its head office in Glasgow from Ingram Street to new and more commodious premises at 110 St. Vincent Street, where all departments of the bank's business are now carried on. Besides the principal Edinburgh office, the bank has now four offices in London, and over 200 branches throughout Scotland.

The Clydesdale Bank, Ltd., was established in 1838 as the Clydesdale Banking Company, Glasgow. For a time its only branch was in Edinburgh. From the first the bank has been well managed and has enjoyed the con-

fidence and a large measure of support of the business community of Glasgow and the western counties, as well as in other parts where it is represented. Its branch system is now fully developed, and in addition to its London office, it has three branches in Cumberland, nominally for the convenience of its customers in the south of Scotland. Among the banks taken over by the Clydesdale Bank since its formation were the Greenock Union Bank in 1843, the Edinburgh and Glasgow Bank in 1858 and the Eastern Bank of Scotland in 1863. The bank had originally a capital of £375,000, afterwards increased to £500,000. By the creation and issue of new shares and additions from its reserve, the capital of the bank has been increased to its present figure of £1,300,000 with a Reserve Fund in addition of £1,600,000. In January 1920 the Clydesdale Bank became affiliated to the Midland Bank, Ltd., through an exchange of shares. The bank has in all 196 branches, in addition to its London office.

The North of Scotland Bank, Ltd., was formed in 1836 and with it was incorporated in 1908 the Town and County Bank—formerly the Aberdeen Town and County Bank, established in 1825—under the joint name of the North of Scotland and Town and County Bank, Ltd. The Bank's name has since been shortened to its present form. Both of these banks, now amalgamated, had their head office in Aberdeen, and had an important connection with the farming and fishing industries, more particularly in the north-east of Scotland. At the time of their fusion the banks had a joint capital of £652,000, which has since been increased to the present figure of £1,141,000, with a Reserve Fund of £1,165,000. In 1924 the Midland Bank entered into an arrangement with the North of Scotland Bank for the

purchase of its shares, and has since acquired the whole of the capital. In addition to the bank's head office in Aberdeen and its London office, it has 159 branches in Scotland, with a note circulation of over two million pounds.

Of the eight Scottish banks now established, the Bank of Scotland, as has been noted, was incorporated by Special Act of the Scots Parliament; the Royal Bank, British Linen, Commercial and National were incorporated by Special Charter, and the remaining three by registration under the Companies Acts, 1862–80. Prior to 1879, all the Scottish banks except the three oldest, were unlimited as regards their shareholders' liability. The other five banks, having registered under the provisions of the Act of that year, became limited companies. Limited liability, however, does not extend to the note issues of any of the banks.

At the passing of the Bank Act of 1844–45, there were in Scotland nineteen banks of issue. By the failure of two and the absorption of nine, their number has been reduced to the aforementioned eight banks as at present. Of these, five banks, namely, The Bank of Scotland, The Royal Bank, The British Linen Bank, The Commercial Bank, and The National Bank, have each their head office or principal place of issue in Edinburgh. The Union Bank has two head offices, one in Glasgow and one in Edinburgh, the administration being centred in the former. The Clydesdale Bank has its chief office in Glasgow, and the North of Scotland Bank has its head office in Aberdeen.

X

CURRENCY LEGISLATION

The Act of 1844–45: its effects on Scottish banking.—The Scottish banks and their note issue.—Attempts to deprive them of the right.—Evidence of popularity of their notes.—Duty payable on note circulation.—Nature of banking business transacted; both varied and comprehensive.—Features of Scottish banking: the Cash Credit System; Note Exchanges; Clearing of Cheques; Uniformity of Rates; Bank Administration.

THE Act of 1844–45 had as important an influence on banking in Scotland as it exercised in the sister kingdom. It restricted Banks of Issue to those having then the right, and no new bank of this nature could thereafter be established. The Act also fixed the authorised circulation of each bank for the future. The average amount of a bank's note circulation for the twelve months immediately preceding that date constituted its authorised circulation. A bank might in future issue to the extent of its authorised circulation, beyond which gold and silver coin must be held in security. The Scottish banks are now permitted to hold Certificates of Currency Notes issued by the Bank of England in lieu of specie as reserves against their notes in circulation. Cover in this form may be held at two of the principal offices of each bank, instead of the head office only, as before.

Prior to 1845, freedom of note issue was regarded as a common law right in Scotland. By the Act of that year any such right was effectually cancelled.

Attempts have been made by Government on more than one occasion to deprive the Scottish banks of the

right of note issue—more especially of the one pound note—and to have the privilege vested in one central bank, namely, the Bank of England. These attempts have, however, failed, the Government recognising that the time had not yet arrived for any such action.

That the notes of the Scottish banks are popular is proved by the steady growth in their circulation. Whereas in 1845 the total issue was £3,087,209, the aggregate for the past year (1930) was £21,384,000, and this notwithstanding the circulation of the Bank of England £1 and 10*s*. notes concurrently with them.

Prior to 1914 gold only was legal tender in Scotland, but during the War period the Scottish bank notes were granted the privilege of legal tender, along with currency notes. This favour has since been withdrawn, so that gold and Bank of England notes only are now legal tender.

In terms of the Act of 1853, relating to Stamp Duty on notes, the Scottish Banks of Issue have each to pay a composition duty at the rate of 4*s*. 2*d*. per cent. on the average amount of their notes in circulation half yearly, equivalent to 8*s*. 4*d*. per cent. per annum.

Nature of Business Transacted

Every description of banking business is transacted by the Scottish banks. Moneys are received on deposit and lodged on what is termed "Deposit Receipt," on which interest is allowed if left with a bank for not less than one month or thirty days. Current Accounts operated on by cheque are opened for any person properly introduced, or of whose *bona fides* the bank is satisfied. These accounts are non-interest bearing, although at one time it was the practice to allow interest

on them. No commission is charged in respect of the turnover.

Since 1st December, 1928, the Scottish banks, following the practice of the English Joint Stock banks, have each opened a Savings Department for small deposits. Sums from one shilling upwards are received, on which interest at varying rates, but not less than 2½ per cent. on the minimum monthly balance, is granted. Passbooks, in which all lodgments and withdrawals are entered when made, are granted to depositors instead of receipts, and withdrawals under £2 may be made on unstamped forms. Small home safes may also be obtained when required.

Trade bills are readily discounted for customers, and advances made either by fixed loan or on operative account against approved security.

The Scottish banks grant drafts and make transfers and remittances to any town in the United Kingdom, as well as to places abroad, on behalf of their customers when desired. Circular notes and Letters of Credit for the use of travellers and tourists to foreign countries may also be procured.

Customers' securities and valuables are received at any office of a bank for safe custody free of charge.

Stock Exchange securities can be purchased or sold on behalf of clients at any time through a bank's broker.

Foreign Exchange transactions are arranged. All the Scottish banks have now departments at their principal offices for the purpose of dealing specially with this class of business, which has very much increased during recent years. Trustee and executry business is also undertaken.

Features of Scottish Banking

Cash Credit System.—A feature of Scottish banking is its Cash Credit System, which, as has been stated, was inaugurated by the Royal Bank at an early period. By means of a Cash Credit Bond, a borrower, whose only capital in many cases was his personal character, could obtain an advance from a bank on the security of two or more friends who joined with him in the obligation. Many persons engaged in farming and other lines of industry, who lacked the necessary capital, have through the instrumentality of Cash Credits attained success and independence. The system has thus contributed in no small measure to the material prosperity of the country.

This mode of advance is still in use, though not so much availed of as formerly. A form of guarantee, with an "ultimate loss" clause, is now more resorted to as a personal security than the Cash Credit Bond.

It may here be observed that as a cautionary obligation there are one or two important differences between the Cash Credit Bond and an ordinary guarantee. In the former, the character of the cautioner as such is suppressed, and he is bound jointly and severally with the principal debtor as full obligant. Under the guarantee, as the name implies, the surety remains solely a guarantor, and ought not to be called upon to fulfil his obligation so long as the principal debtor remains solvent. Another difference is that whereas the Cash Credit Bond is a continuing obligation, the guarantee is subject to the Septennial limitation.

Note Exchanges.—Another feature of Scottish banking is its system of note exchanges, first adopted by the Bank of Scotland and the Royal Bank in 1752, and

continued ever since. The advantages of the system are that it secures the convertibility of the note, prevents inflation, and abuse of credit.

At all towns in Scotland where there are two or more banks of issue, an exchange of each other's notes takes place daily. In towns where there is no Clearing House, each bank may settle its difference directly, or as is more generally the case, one of their number is appointed settling bank, and as such receives or makes payment of the balances due in each case. Differences for less than £100 are settled by Exchange Voucher, which is carried to next day's exchange, and for larger sums settlement is made by Exchange Draft on Edinburgh.

The Clearing System.—In the principal cities and towns Clearing Houses are established for the Clearing of cheques, as well as the exchange of notes. This method obviates the necessity of each bank collecting its cheques on another bank in the same town, by presentation across the counter, and is thus a great convenience.

The representatives of the various banks meet at the Clearing House daily, first for the exchange of notes, and subsequently for the Clearing of cheques, the balances over from the note exchange being carried into the same day's Clearing. The cheques, after being listed on separate slips, each bearing the name of the bank on which the cheques attached thereto are drawn, are taken to the Clearing House. Each clerk at the Clearing House hands over to the other banks represented there his bank's cheques on them, and receives from them at the same time their cheques on his bank. After the Clearing has taken place, and the balances have been wrought out and checked, a settling slip is handed by each bank's representative to the settling clerk, showing

the final sum due to or by his bank, after which the general balance is struck and the Clearing completed for the day. The settling bank receives from the banks which are debtor in the settlement, before the close of business, a draft on Edinburgh in each case for the sums due by them respectively, and pays to the banks which are creditor in the same way the respective sums due to them.

At the principal Clearing House in Edinburgh, the Bank of Scotland and the Royal Bank act as settling bank each month alternately. The General Settlement applicable to both the exchange of notes and the Clearing of cheques takes place twice weekly, on Mondays and Thursdays. The banks which are creditor in the General Settlement are notified the same day by the banks which are debtor that they will receive payment in London four days thereafter of the balances which are due to them respectively, with four days' interest added thereto.

Unlike the London Clearing House, there is no published statement made, nor statistics apparently kept, of the total amounts passing through the Edinburgh, Glasgow and other Scottish Clearing Houses in the course of a year. Such information would be interesting, as the aggregate must be running into many millions.

Uniformity of Rates.—Another feature of the Scottish system, differentiating it from that of England, is what is known among Continental banks as Bank Cartel. It is similar thereto in respect that there is a combined agreement among the Scottish banks that, as regards rates charged for loans and advances, as well as for interest allowed on deposits, they shall all adhere to fixed rates as pre-arranged. These rates, both for deposits and advances, are advertised from time to time in the

public Press, and are periodically revised after a change in Bank Rate. The same agreement applies to commissions and charges on the negotiation of bills, cheques and other documents, except in special cases, when the charge if any is discretionary. The various banks, both at their respective head offices and branches, are provided with printed tables describing the various documents which may be negotiated, and stating the rate of commission applicable to each class. Under this arrangement competition is avoided, as any one of the banks is precluded from offering better terms to its customers and the public than another of their number.

Bank Administration.—The business affairs of each of the Scottish banks are under the control of a Board of Directors who meet as a Board, or Committee thereof, weekly. At this meeting all matters of importance bearing upon the bank's interests are submitted for their consideration. In addition to the Board of *Ordinary* Directors, as it is called, it is a feature of Scottish banking that each bank has a Board of Extraordinary Directors, also a Governor and a Deputy-Governor. The office of Extraordinary Director is an honorary one, and the connection between its holder and the Bank conferring the distinction is more nominal than real. In the case of the Governor, and also the Deputy-Governor—the holders of which offices are very frequently members of the nobility—the connection is more than a nominal one. It falls to the Governor of the bank—and, in his absence from any special cause, to the Deputy-Governor—to preside at the annual meeting of his bank and submit the Annual Report to the shareholders present. The speeches prepared in anticipation of those annual meetings—none of which as a rule are held at the same time—are of interest, not only to

shareholders and customers of the bank, but also to members of the public. They are of interest to the latter inasmuch as they usually contain a considered review of the state of industry and trade in the country during the bank's year, and not infrequently express an experienced forecast of same in the new year entered upon.

XI

LATER BANKING DEVELOPMENTS

The Scottish Banks' position: characterised by stability and progress.—Direct representation in London by all the banks.—New departure by Royal Bank: acquisition of Drummond's Bank; later developments.—Increase of bank branches in Scotland; increases in capital, etc.; in deposits and advances; in note circulation.—Aids to industry by extended credits; facilities to small depositors.—The movement towards Centralisation.

BANKING in Scotland has not been immune from change and vicissitude any more than it has been in other countries, though it is now more than half a century since the last bank failure took place, namely, that of the City of Glasgow Bank in 1878. It is a tribute to the able and prudent management which characterises the banking business of the country that it has come successfully through critical periods since that time, both political and financial, without loss of prestige to any of its banks.

Beginning with the opening of branches in London, the first of which, as we have already remarked, was made by the National Bank of Scotland in 1864, the subsequent period has been marked by expansion and development. All the Scottish banks have now established one or more branches in London. An important step, previously referred to, was taken by the Royal Bank of Scotland, when in January 1924 it acquired the old-established business of Messrs. Drummond, private bankers, at 49 Charing Cross, London, which it has since

carried on in its own name, thereby strengthening its position in the Metropolis. A still later development—the acquirement of Williams Deacon's Bank and the Western Branch of the Bank of England—is also of great significance.

The Union Bank of Scotland has a large shareholding interest in the British Overseas Bank, whose head office is in London, and which was formed in 1919 for the purpose of giving increased facilities for trade with other countries.

New branches of the banks have been opened year by year by one or other of their number throughout Scotland, so that at the present time there is scarcely a town even in the remotest part of the country without a branch bank. Except in London, and one or two towns in the north of England, near the borders, the Scottish banks have confined their operations to Scotland, but the acquirement of Williams Deacon's Bank by the Royal Bank of Scotland during the past year is an important link with business across the Border. The total number of branch offices of the eight banks in Scotland in 1930 was 1743.

Not only in branches has there been increase, the same is true as regards the resources of the banks. All of them possess substantial capitals and reserve funds, and show considerable increases from former figures. In the case of two of the banks, the Royal Bank of Scotland and the Commercial Bank of Scotland, the combined paid-up capital and Reserve Fund of each now amount to upwards of £5,000,000.

The deposits of the banks show similar expansion. In 1909, the aggregate deposits of the banks were £105,331,110, whereas in 1930, twenty-one years later, they were £253,170,000, being considerably more than

double the previous figure. The advances have increased correspondingly with the deposits during the same period. In 1909, banking advances were £73,538,908, rising to the substantial figure of £155,930,000 for 1930.

In 1909, when the Scottish banks had the monopoly of one pound notes, the total note circulation was £7,065,783. In 1930, despite the fact that £1 and 10*s.* notes of the Bank of England were in circulation at the same time, the total issue with the public of the Scottish banks was no less than £21,384,000, being more than three times the former figure.

These figures taken collectively demonstrate that the Scottish banks perform a real service to the country, both by safeguarding its wealth as expressed in money and by promoting thrift amongst the people generally. Not only so, but by granting credit and making advances when required to farmers, manufacturers and traders, the banks give effective assistance to the productive industries of the country. By opening their doors, as they have now done, to the smallest depositor equally with the Savings Banks of the country, they may be said to have removed from themselves the reproach, if such it may be termed, that they were the bankers principally of the rich and well-to-do. By the step they have thus taken, it will in all probability be shown, as time goes on—as the latest returns appear to have already proved—that the innovation was a wise one, and has worked not only to the interests of the banks, by increasing their available resources, but also to the economic interests of the State.

Within recent years the movement towards centralisation in banking, so marked a feature among banks in England and elsewhere, has extended to Scotland. Of the eight Scottish banks, four have become affiliated

with English institutions. The first of their number to take this course was the National Bank of Scotland, Ltd., which by arrangement and with the consent of the majority of its shareholders conjoined its interests with Lloyds Bank as from 1st July, 1918. Later affiliations were the British Linen Bank with Barclays Bank in 1919, and the Clydesdale Bank and North of Scotland Bank with the Midland Bank at subsequent dates.

These four Scottish banks, though thus affiliated, have maintained their separate identity, and each of them retains its note issue the same as formerly.

XII

TRUSTEE SAVINGS BANKS

When first established in Scotland: number of offices regularly open.—Conducted similarly to the English Savings Banks.—Total deposits.—Credit facilities to Agriculture: Agricultural Credits (Scotland) Act 1929.—Purpose of the Act.—Long Term Credits: provision for the formation of a company.—Company empowered to raise Debenture capital; Short Term Credits; to be made by Scottish banks of issue.—The Agricultural Co-operative Society as intermediary.—Floating charges in security of loan.—Borrowers to be members of Agricultural Co-operative Society.—Wherein Act differs from English Act.—Later development towards completion of scheme.

DISTINCT from, and virtually independent of, the Scottish Banks of Issue, are the Trustee Savings Banks. The first of these banks was established in 1807, and there are now over 150 in all, including branch offices, doing business in many towns throughout Scotland. These institutions are conducted on similar lines to those in England to which reference has been made. They have always been popular and well supported wherever established. The Savings Banks of the four principal cities show large deposits in each case, with an increasing amount yearly. The aggregate amount due to depositors for all the Trustee Savings Banks in Scotland as at 20th November, 1930, was £65,462,481, being an increase of £5,809,000 since 1928.

CREDIT FACILITIES TO AGRICULTURE

As the Agricultural Credits Act 1928 applied to England only, the Government considered that a measure some-

what on the same lines should be introduced and passed through Parliament in the interests of Scottish agriculture. Such a measure, termed the Agricultural Credits (Scotland) Act, was accordingly brought in and passed the following year, and came into force on 1st April, 1929. In its scope and plan it follows on the lines of the English Act, and in the carrying out of its provisions the Scottish banks are given the opportunity of co-operating, as the English banks were, with the previous measure.

The objects of the Act as set forth in its preamble are to make loans for agricultural purposes by means of the formation of a company, and to facilitate the borrowing of money in Scotland on the security of agricultural assets. As in the case of the English Act, the Scottish measure is divided into two main parts, one relating to Long Term Credits and the other to Short Term Credits.

I.—Long Term Credits

The Act provides for the incorporation of a Company having for its principal object the making of loans on heritable securities over agricultural land. On such a Company being incorporated, the Department of Agriculture for Scotland, with the approval of the Treasury, undertakes to make advances by instalments to the Company. These advances are made for the purpose of establishing a Guarantee Fund to an extent not exceeding in the aggregate £125,000, and are to be free of interest for a period of sixty years. The Company is empowered for the purpose of making loans to raise money by means of the issue of debentures to an extent not exceeding £800,000. The Treasury may agree to procure the underwriting of any such issue and to

subscribe thereto to an extent not exceeding one-fourth of same, or £200,000 in all.

It is also provided that the loans to be made by the Company on heritable security shall in no case exceed two-thirds of the estimated value of the security subjects at the time of the loan. The loans so made shall be repayable by equal yearly or half-yearly instalments of capital and interest, spread over a period not exceeding sixty years.

While the Department of Agriculture undertakes to provide a Guarantee Fund, it is understood that certain of the Scottish Banks of Issue have signified their willingness to provide towards the share capital of the Company, all of them having the option of doing so.

II.—Short Term Credits

The Act makes it lawful for a society, that is to say an Agricultural Co-operative Society, to create by instrument in writing in favour of a bank a charge on property consisting of stocks of merchandise belonging to and in possession of the Society.

The principal sum secured by an agricultural charge may be either a specified amount or a fluctuating amount advanced on Current Account, not exceeding at any one time such amount as may be specified in the charge. An agricultural charge shall, so long as it remains in force, confer on the bank a right of security over the property affected by the charge, extending if necessary to sale of the property affected. Such charge, however, will not have priority to any right of hypothec competent to the landlord of the Society, or superior of the lands, nor to any process for recovery of taxes or rates.

A Society which sells any of the property or merchandise affected by a charge shall be bound to account to

the bank for the proceeds of sale in order that the debt due to the latter may be liquidated thereby.

Agricultural charges shall have priority under the Act in accordance with the dates on which they are respectively registered.

It is remitted to the Court of Session to make rules prescribing the nature of the documents with which the bank may require to be furnished so as to identify the property of the Society on which the agricultural charge rests, and to establish the Society's title thereto.

The Assistant Registrar of Friendly Societies for Scotland will keep a Register of Agricultural Charges, in such form as may be prescribed. Such register will at all reasonable times be open to inspection by any interested person, on payment (except where inspection is made by or on behalf of a bank) of the prescribed fee, with the liberty to make copies or extracts therefrom.

The foregoing are the provisions of the Agricultural Credits Act relating to Scotland. It will be observed that while under the English Act Short Term Credit can be granted by the banks to individual farmers who are borrowers, as regards Scotland such loans can only be obtained through the Agricultural Co-operative Society to be formed. The reason for this difference in the respective Acts is due to the fact that Scottish legislation does not make provision for security by mortgage over movables—goods and chattels—as is the case in England.

Having regard to the fact that a demand existed in Scotland for the formation of Agricultural Co-operative Societies, the Government sought to meet this demand. They considered at the same time that the granting of Short Term Credits, more especially to the small farmer

or landholder, could be more satisfactorily arranged through the agency of these societies than otherwise.

In order to obtain loans farmers must become members of these Co-operative Societies. The latter will have power to buy and sell and keep in store every description of agricultural and horticultural produce, as well as to attend to the negotiating of loans on behalf of individual members with the shareholding banks.

While no farmer or landholder is prevented from applying to any bank for such credit as he may require, he must apply to a shareholding bank in the Mortgage Corporation to be formed in order to receive a loan under the provisions of this Act.

A further stage towards completion of the scheme under the Agricultural Credits (Scotland) Act 1929 was intimated in Parliament by the Secretary of State for Scotland on 3rd June, 1931. He was then reported to have said that four of the Scottish Banks of Issue, viz., the Royal Bank, the British Linen Bank, the Commercial Bank and the National Bank had agreed to find sufficient capital to set up an Agricultural Security Company, in Scotland, in terms of the Act. These banks, it was further stated, were considering how to finance the issue of debentures, from which the greater part of their working capital would be derived.

III. THE IRISH BANKING SYSTEM

XIII

System modelled after the English type: banks possess the right of note issue.—The first bankers: early forms of banking.—Private banks: the first of their number.—The bank of Hon. D. La Touche & Co.—The crisis of 1825 and its effects.—The Bank of Ireland: when formed; its monopoly; effects of same.—Withdrawal of monopoly.—The bank's relation to Irish Government.—The Bank's position at last Balance.

ALTHOUGH banking in Ireland is conducted on somewhat the same lines as that of England, it has from its beginning been carried on as a separate system. The capital of the various banks as well as their deposits have both been raised for the most part in Ireland, and as Irish banks all of them now possess the right of note issue.

As there were no restrictions to the formation of banks prior to the establishment of the Bank of Ireland in 1783, a number of small banks having freedom of note issue began to do business at various centres. The bankers in several instances were either goldsmiths or traders, who combined with their own business that of banking. The banking operations consisted at first of the exchanging of money and granting of promissory notes as receipts for the moneys deposited. These promissory notes, owing to the scarcity of specie, frequently passed from hand to hand and fulfilled the purpose of bank notes.

PRIVATE BANKS

One of the earliest of the private bankers in Ireland was John Demar (or Damer), who carried on the business

of banking in Dublin in the latter part of the seventeenth century, though there would appear to be no record of its exact nature and extent. Other firms of which more is known were Gordon & Co., Belfast, whose establishment got the name of the Belfast Bank, and H. Montgomery & Co., the original partners of the Northern Bank, Belfast. In Dublin the private bank of Sir Robert Shaw, Bart. & Co., dating back to 1799, became merged in the Royal Bank of Ireland in 1836. Another Dublin bank was that of B. Ball & Co., which was merged in the Northern Bank.

The banking crisis of 1825 would appear to have exacted its toll among the private banks in Ireland no less than it did amongst those of England. Of the private banks in Ireland which failed or ceased business about that period were the following, viz., Sir W. Roberts & Co., subsequently Leslie & Co., G. Newenham & Co., and Joseph Pike, all of Cork, and K. & W. Roche of Limerick.

Amongst the most reputable and longest established of the private bankers of Ireland was the firm of the Rt. Hon. D. La Touche & Co. They were originally manufacturers of Irish poplin, which after a time they renounced and devoted themselves exclusively to the business of banking. As bankers they began business in Dublin in 1725 and continued until 1871, a period of nigh a century and a half, having amalgamated at the latter date with the Munster Bank, now the Munster and Leinster Bank, Ltd. Touche's Bank is sometimes referred to as the "Irish Coutts," because of the honourable position it occupied among Irish banks of that period.

Of the private banks remaining there would appear to be only two, viz., Messrs. Guinness, Mahon & Co., and

Messrs. Boyle, Low, Murray & Co., both of which carry on business in Dublin.

The Bank of Ireland

After one or two unsuccessful attempts, the Bank of Ireland became established in June 1783, with its head office in Dublin, having a capital of £600,000 Irish, increased in 1791 to £1,000,000 sterling. The bank's first Charter, which was modelled after the pattern of the Bank of England, gave the bank the virtual monopoly of the banking business of the country, as it prevented banks with a greater partnership than six persons having the right of note issue being established. This exclusive privilege of the Bank of Ireland would appear to have produced the same effects in the sphere in which it operated as that of the Bank of England caused in the sister kingdom. It prevented strong banks being formed, and when in times of commercial crisis, as not infrequently happened, a run was made by note holders or depositors on the smaller banks, many of them failed.

It was not until 1824 that the monopoly referred to was partially curtailed, when permission was given to banks with more than six partners to be formed at a distance of fifty (Irish) miles from Dublin with power of issue. It was only in 1845, however, by the passing of the Bank Act of that year, that the monopoly of the Bank of Ireland was finally removed and permission granted for the formation of banks having more than six partners to be formed in or outside Dublin.

The Bank of Ireland since its formation has occupied much the same relation to the Government, in Ireland, as the Bank of England has done in England. It has been the banker of the Government, and has managed the Public Debt as well as the issue of Government Loans

in Ireland from time to time. At the same time it competes through its branch system with the other Irish banks for all kinds of banking business. The bank has in all ninety-eight branches, and forty-three sub-branches, established in various towns, both in the Free State and in Northern Ireland.

Appended hereto is a copy of the last Annual Balance Sheet of the Bank of Ireland, showing liabilities and assets as at 31st December, 1930, from which it will be seen that the bank's paid-up capital is now £2,769,230, its Rest or Reserve Fund £3,480,000, and total resources £42,189,449.

BANK OF IRELAND, 31st December, 1930

Liabilities

	£	s.	d.	£	s.	d.
Capital paid up				2,769,230	15	5
Rest				3,480,000	0	0
Notes and Post Bills in Circulation :—						
Consolidated Bank Notes Outstanding	880,000	0	0			
Less held by Bank	119,289	0	0			
				760,711	0	0
Other Notes and Post Bills in Circulation				1,561,091	4	9
Government and other Public Accounts				3,391,557	15	0
Deposit, Current and other Accounts, including Reserves for Contingencies				29,900,197	4	5
Acceptances, Endorsements, etc.				33,334	0	0
Profit and Loss Account				293,327	7	0
				£42,189,449	6	7

Assets

	£	s.	d.	£	s.	d.
Cash at Head Office, Branches and Bank of England	1,967,920	8	10			
Cash at Call and short notice	1,663,967	8	0			
				3,631,887	16	10
British Government Debt				2,630,769	4	7
Government Securities	14,836,345	17	2			
Other Securities	4,763,043	3	2			
				19,599,389	0	4
Advances to Customers, Bills Discounted, etc.				15,432,713	13	4
Liabilities of Customers for Acceptances, Endorsements, etc., as per contra				33,334	0	0
National City Bank, Ltd. :—						
406,000 Shares of £1 each, 10s. paid	203,000	0	0			
18 Shares of £1 each, fully paid	18	0	0			
				203,018	0	0
Bank Premises, Head Office and Branches at cost, less amounts written off				658,337	11	6
				£42,189,449	6	7

XIV

IRISH JOINT STOCK BANKS

When first established: Northern Banking Co. the earliest institution.—Its branch system and administration.—The Provincial Bank of Ireland: when formed; location of Head Office; early vicissitudes.—The Hibernian Bank: its original title; when changed.—Right of note issue now possessed.—The Belfast Banking Co.: date and nature of origin.—Its affiliation with the Midland Bank, and immediate effects.—The Ulster Bank Limited: its branch system; affiliation with Westminster Bank.—The National Bank Limited: its London opening with subsequent developments; branch connection in England and Ireland.—Royal Bank of Ireland: its acquisition of Belfast Banking Company's branches in Free State.—Now possesses right of note issue.—The Munster and Leinster Bank Limited: date and purpose of formation; its branch system; acquirement of right of note issue; present position.—The National City Bank; purpose of formation.—Affiliation with Bank of Ireland.

No sooner had the Bank of Ireland surrendered its monopoly in 1824, thereby opening the way for the formation of Joint Stock banks outside Dublin, than the first of their number was established. This was the Northern Banking Co., now the Northern Bank Ltd., which began business in Belfast in 1824, and has continued since then, over one hundred years. The bank very soon began a system of branch extension, and has now 191 branches and agencies operating both in the Free State and in Northern Ireland. The management of the Northern Bank is vested in the hands of four managing directors who devote their whole time to the bank's service and are assisted by a Shareholders' Committee elected annually. The bank has at present a paid-up capital of

£700,000 with a Reserve Fund of £800,000, and is the only Belfast bank which has preserved its continuity as an independent institution.

The next important Joint Stock bank to be formed in Ireland was the Provincial Bank, which began business in 1825. The head office of the bank was located in London, which still remains the chief centre of its administration, while its principal office in Ireland is at Dublin. During the early years of its establishment, the Provincial Bank had to encounter several runs on its branches in the south of Ireland for payment of its notes in gold. The Irish Banks of Issue, unlike the Scottish Banks, were required to make payment of their notes in gold at the office where same were issued. It was because of this regulation, and to meet the "runs" referred to, that the Provincial Bank was obliged in 1828 to send a sum of £700,000 in gold from its London office to the relief of its branches across the Channel. Fortunately for the bank, all demands were duly met, and its prestige was thereby increased. The bank has to-day a paid-up capital of £540,000, a Reserve Fund of £660,000, and 139 branches and sub-branches throughout Ireland. It is interesting to note that a former manager of the Provincial Bank's branch at Waterford, Mr. J. W. Gilbart, afterwards became the first General Manager of the London and Westminster Bank, and is the author of the well-known book: "The History, Principles and Practice of Banking."

The Hibernian Bank, the original title of which was the Hibernian Joint Stock and Annuity Company, also commenced business in 1825, with a subscribed capital of £1,000,000. It was not until 1885 that the bank's name was changed to its present form, when a new constitution was adopted. As the Hibernian Bank had not previously possessed the right of note issue, this privilege was granted

to it in 1927 by the passing of the Currency Act of that year. The head office of the bank is in Dublin, and it has in addition to eight branches in that city, fifty-eight country branches, and fifty-one sub-branches operating in the Free State and in Northern Ireland. Its present paid-up capital is £500,000, with a Reserve Fund of £690,000.

The Belfast Banking Co. was formed in 1827 by the amalgamation of two private banks, namely, Gordon & Co. (Belfast Bank) and Tennent & Co. (Commercial Bank), having a subscribed capital of £500,000, of which £125,000 was paid up. The bank's head office and principal branches are in Belfast, where it has always taken a leading part in financing the linen and ship-building industries of that city. In 1917 the Belfast Banking Co. became affiliated with the Midland Bank, Ltd., which now owns all its shares. Because of this connection, and the controlling bank's policy to confine its operations to the United Kingdom, the Belfast Bank in 1923 disposed of its branches in the Free State to the Royal Bank of Ireland. The bank continues its separate identity in Northern Ireland and preserves its note issue. It has a paid-up capital of £800,000, with a Reserve Fund of £600,000, and eighty-six branches and agencies, all situated within Northern Ireland.

In addition to the Northern Bank, Ltd., and the Belfast Banking Co., Ltd., the Ulster Bank, Ltd., has also its head office in Belfast. It was founded in 1836, but unlike the other two Belfast banks, was not the successor of a private establishment. The bank began business with a subscribed capital of £1,000,000, having £200,000 paid up, and during its history, now approaching a century, has enjoyed a large measure of prosperity. It has a branch system embracing 115

branches and ninety-six agencies, operating in Northern Ireland and the Free State. In 1917 the Ulster Bank became affiliated with the Westminster Bank, Ltd., which now owns the most of its shares. The Ulster Bank has a paid-up capital of £800,000, a Reserve Fund of £1,000,000, and deposits of £21,500,000, approximately.

The National Bank, originally named the National Bank of Ireland, was formed in 1835, with a subscribed capital of £1,000,000, and began business at Carrick-on-Suir. In virtue of the powers conferred by its Deed of Settlement, the bank in 1854 opened an office in London when it began business in that city. Its right to do so was contested by the Bank of England, under the provisions of the Act of 1844. The opinions of eminent Counsel which were sought favoured the National Bank's claim, following which, the bank in 1856 established its head office in London, when it shortened its title from National Bank of Ireland to that of The National Bank, Ltd. The bank at the same time obtained admission to the London Clearing House. Although the bank has several branches in London and other cities in England, its main sphere of operations is in Ireland. The bank's shareholders are mostly Irish, and six of its twelve directors are in Dublin, where also its chief office in Ireland is situated. In addition to its head office, the bank has in England twenty-eight branches, metropolitan and provincial, and in Ireland, besides its principal office in Dublin, 238 branches and sub-offices. It has a paid-up capital of £1,500,000, a Reserve Fund of £1,465,000 and deposits of over £37,000,000. Among Irish banks the National Bank ranks next to the Bank of Ireland.

The Royal Bank of Ireland was established in 1836, when it took over the business of Sir Robert Shaw

Bart. & Co., private bankers in Dublin, and confined its business for the most part to that city until recent years. In 1923, the bank acquired the Free State branches of the Belfast Banking Co., as previously stated. It has since extended its branch connection, and has now forty-two branches, and thirty-six sub-branches, all operating in the Free State. Like the Hibernian Bank, the Royal Bank did not possess the right of note issue, but this right was granted it by the currency legislation of 1927. The bank has at present a paid-up capital of £300,000, with a Reserve Fund of £250,000.

The Munster and Leinster Bank, Ltd., with head office at Cork, was formed in 1885 for the purpose of taking over the assets and business in southern Ireland of the Munster Bank, which had failed and gone into liquidation. It began business with a paid-up capital of £148,750, and since its establishment has developed a system of branch extension, until it has now over 200 offices in all, extending to Northern Ireland as well as the Free State. Owing to the comparative lateness of its formation, the Bank had no note issue, but this privilege was granted to it in common with the other two non-issuing banks by the Free State Currency Act. The Bank has at present a paid-up capital of £750,000, a Reserve Fund of £1,000,000 and total deposits of £25,000,000.

The aforementioned eight banks, along with the Bank of Ireland, constitute the Irish Banks of Issue, all of which carry on business in their own name and independently of each other.

In addition to the banks named, there is the National City Bank, Ltd., formerly known as the National Land Bank, which was founded in 1920. The bank was formed for the purpose of meeting the special needs of

farmers, but developed into the ordinary type of Joint Stock bank. It is called the National City Bank, because its operations are confined to the city of Dublin and its environs. In July 1926, the bank's business was sold to the Bank of Ireland, which now appoints its directors and has control of the company. It has at present a paid-up capital of £203,000 and a Reserve Fund of £77,000.

XV

NATURE OF BUSINESS TRANSACTED

Note issue; deposit and current account transactions; bill discounting.—Remittance of money, etc.; Foreign Exchange business.—Cash Credit System partially in vogue.—Facilities for small deposits.—Note Exchanges and Cheque Clearings.—Banking and Currency Legislation.—The Bank Act of 1845.—Changes effected thereby: restrictions on Banks of Issue.—Points of difference between English and Irish Acts.—The Currency Act of August 1927: its main provisions; appointment of Currency Commission; its functions; provision and issue of legal tender notes.—Banks of Issue in Free State to become shareholding banks.—Consolidated bank notes, and regulations as to their issue and payment.—Tax on circulating issue.—Fiduciary issues under the New Act.—Bankers (Northern Ireland) Act 1928 and its provisions.

ALL the Irish banks, with the exception of the Bank of Ireland, have registered under the Act of 1879 as banks with limited liability.

As regards the business transacted, the Irish banks conduct much the same class of business as that of the Scottish banks. That is to say, they issue their own notes, they receive sums on deposit bearing interest, as well as on Current Account operated by cheque; they discount bills and remit money by bank draft, or transfer, to any part of Ireland or the United Kingdom, as well as to places abroad. Foreign Exchange transactions are also engaged in, and the office of executor or trustee undertaken when required.

The system of Cash Credits introduced at an early period among the banks in Scotland has been adopted by a number of the Irish banks. Advances given in this

form have been in numerous instances of material benefit to agriculturists and traders, as well as profitable to the banks concerned.

Owing to the popularity of bank notes amongst the population, the use of the cheque as a medium of payment is not availed of to the same extent amongst them as it is in both England and Scotland. Cheques, nevertheless, are being increasingly used. Prior to the establishment of Joint Stock banks, and owing to the fact that the Bank of Ireland allowed no interest on deposits, there was a good deal of hoarding practised. Every inducement, however, is now given for the encouragement of depositors, both by the Bank of Ireland and the other banks, by allowing remunerative rates of interest on sums deposited with them. Small deposit accounts may be opened with any of the Irish banks, and home safes are issued by some of their number into which any sum may be placed from the smallest coin to the largest note and, when full, brought to the bank to be transferred to the depositor's account. That the advantages thus offered have been appreciated is proved by the fact that the total deposits of the banks have reached an aggregate of £181,928,000.

In towns where there are two or more banks doing business, note exchanges take place daily, and cheques payable locally are collected. There are Clearing Houses established in Dublin and Belfast, for the note exchanges and cheque clearings pertaining to these cities, respectively.

Banking and Currency Legislation

The Act of 1845.—By the Act of 1845, which contained more important legislation affecting banking in Ireland than any measure previously passed, the Banks of Issue

were confined to those then having the right.* No new bank of issue could thereafter be formed. The Act finally did away with the remaining privileges of the Bank of Ireland in regard to note issue and gave liberty to the other banks then possessing the right to issue their notes both in Dublin and any other town, equally with the former bank.

It was provided under the Act that the average circulation of each bank for the previous twelve months would thereafter be its authorised circulation, to which extent it had the right to issue notes without security for same. Any sum issued in excess of the authorised figure had to be covered by gold and silver coin at the head office, or four principal places of issue in Ireland, the silver coin not exceeding one-fourth part of the gold coin so held.

It is interesting to note that as regards the lapse or forfeiture of note issues, there is a difference between the English and Irish Acts in their application. Should an English bank from any cause have renounced its note issue, the Bank of England benefited to the extent of two-thirds of same, whereas in the case of Ireland the Act ordained that should an Irish bank have discontinued its issue, the *full* amount thereof would have accrued to the Bank of Ireland. Another distinction in the Act related to the security for note issues. In Scotland, gold and silver coin to be retained as security for note issues had to be held at the head office of a bank, whereas, as regards Irish banks, such coin could be held at its head office, or principal places of issue in Ireland, not exceeding four in number. The reason for this privilege, if such it may be termed, extended to Irish banks is due to the fact that in the case of two of their number their respective

* Amended by the Currency Act of 1927.

head office was in London, and it would have been very inconvenient to retain gold in London to meet demands which might at any time arise in Ireland. Further, under the Act of 1828, Irish bank notes were made payable at the places of issue, including branches, and this requirement was not removed by the Act of 1845. It was therefore a necessary provision that stocks of gold could be retained at not less than four convenient centres in Ireland, so as to be available when required.

The Currency Act of 1927.—Important changes have taken place in Irish banking and currency, as the result of the recommendations of the Commissioners appointed by the Irish Free State on 8th March, 1926, and which were embodied in the Currency Act of 20th August, 1927.

The Act authorised the setting up of a Currency Commission, to fulfil the functions assigned to it. The Commission consists of seven members comprising a Chairman and six ordinary members, three of whom are elected by the banks, and the other three are nominated by the Minister of Finance. The ordinary members elect the Chairman. The Commission was authorised by the Act to provide, and issue, legal tender notes of various denominations, from 10*s*. upwards, for circulation in the Free State as legal tender money equally with gold coins. British Treasury notes of £1 and of 10*s*., formerly current, were withdrawn from circulation, and the new Free State notes took their place as the new legal tender currency. The latter were first put into circulation on 10th September, 1928.

The Commission issues legal tender notes at its office in Dublin to any person in exchange for gold bullion or coin, and issues to banks applying for legal tender notes such amounts as may be required against payment by Bank Draft payable at sight in London, or in Government

Securities at current market value prices. The Commission may also, at its London agency, issue legal tender notes of the Free State in exchange for an equal nominal amount of British money, and pay its legal tender notes in money in any form which is legal tender in Great Britain. It will also redeem its legal tender notes in Dublin, when and to such extent as it thinks fit, in gold coins which are legal tender in the Free State, or British legal tender.

After the passing of the Currency Act, Banks of Issue in the Free State were required to pay to the Currency Commission a sum of £5000 each in respect of capital liability and to entitle them to become "Shareholding banks" for the purposes of this Act. One thousand pounds of the total amount required in each case need only have been paid as an initial payment, and the balance remaining might be paid by the respective banks at such time as the Commission should prescribe.

Consolidated Bank Note Issue.—The Commission was also authorised to issue to the Shareholding banks—that is to say to all the banks now having right of issue in the Free State—a new issue termed Consolidated bank notes. These notes take the place of the bank notes previously in circulation, and are of the same denomination, the lowest amount being one pound. Although by the terms of the Act, the Commission may require any Shareholding bank to give security for Consolidated bank notes issued to it, these notes are issued to the banks within the amounts of their respective quotas on application and without consideration. The maximum issue of Consolidated notes must not for the present exceed £6,000,000.

Each Shareholding bank (which has the privilege of note issue) has its distinctive name printed on the Con-

solidated notes at the date of delivery by the Commission. Banks issuing Consolidated notes must issue those only which bear their own name. Consolidated bank notes are only payable in gold, or legal tender money when presented for payment at the bank's principal office in Dublin. In the event of the head office of a bank not paying its notes on presentation, the bearer may make application to the Currency Commission, who will pay same and charge the responsible bank for the sum paid. After the passing of the Act, only Consolidated bank notes are to be paid out by issuing banks, other than legal tender notes of the Free State. The 6th May, 1929, was appointed by the Commission as the day for the commencement of the issue of Consolidated bank notes.

Banks of Issue in the Free State are required to pay a tax at the rate of 1½ per cent. on their outstanding circulation of Consolidated notes, and if such be at any time beyond the prescribed limit or quota, a further tax of 2 per cent. on the excess.*

Such, then, are the principal provisions of this important Act. A feature in the banking changes introduced, as regards currency, is the granting of the right of note issue to the three banks which did not formerly possess it, namely, the Royal Bank of Ireland, the Hibernian Bank, and the Munster and Leinster Bank.

Under the new Act a branch bank is not obliged to pay its notes in gold, or legal tender money, when presented for payment. Such payment can only be had at the bank's head office in Dublin. A tax is now chargeable on the notes in circulation instead of a stamp duty as formerly, and an additional tax is exacted should

* In accordance with the provisions of the Free State Budget of May, 1932, the duty on the Consolidated note issue was raised from 1½ per cent. to 3 per cent.

a bank's note issue exceed its authorised limit, as has been stated.

British sterling is still maintained as the standard of value, so that the possibility of any fluctuating exchange rate between the Free State and Great Britain is thereby avoided.

The statement on the following page, which appeared in the *Statist* of 12th May, 1928, and is here reproduced by courtesy of the Editor, is of interest as showing the position of Irish Bank issues resulting from the new legislation.

It will be observed that under the new measure the total fiduciary issue of the banks will be increased from £6,354,494 to £7,634,000. As regards the Free State, the future issue of the banks will be absolutely limited to £6,000,000. The right of note issue, now granted to the last three banks in the list below, applies to the Free State only.

As may be noted, under the new Act the fiduciary issue of the Bank of Ireland has been considerably reduced. The Provincial Bank's issue has also been reduced, but only to a small extent. On the other hand, the fiduciary issues of the National Bank, the Ulster Bank and the Northern Bank have all been considerably increased.

Bankers (Northern Ireland) Act 1928.—Consequent on the passing of the Irish Free State Currency Act, the British Parliament passed an Act on 2nd July, 1928, termed the Bankers (Northern Ireland) Act 1928. The purpose of this measure was to reduce and to re-apportion the aggregate amount of the fiduciary bank note issue, under the Act of 1845, in its application to Northern Ireland. It also restricted therein the circulation of notes issued outside the United Kingdom.

FIDUCIARY ISSUES OF THE IRISH BANKS *

	Issue under 1845 Act	Future Issue			Change, + or −
		Free State	Northern Ireland	Total	
Bank of Ireland	£3,738,428	£1,760,000	£410,000	£2,170,000	− £1,568,428
Provincial Bank Limited	927,667	649,000	220,000	869,000	− 58,667
National Bank Limited	852,269	1,365,000	120,000	1,485,000	+ 632,731
Ulster Bank Limited (*a*)	311,079	419,000	290,000	709,000	+ 397,921
Belfast Banking Co. Limited (*b*)	281,611	—†	350,000	350,000	+ 68,389
Northern Bank Limited	243,440	243,000	244,000	487,000	+ 243,560
Munster and Leinster Bank Limited	—	852,000	—‡	852,000	+ 852,000
Hibernian Bank Limited	—	439,000	—‡	439,000	+ 439,000
Royal Bank of Ireland Limited	—	273,000	—‡	273,000	+ 273,000
	£6,354,494	£6,000,000	£1,634,000	£7,634,000	+ £1,279,506

* From *Statist*, 12th May, 1928. † Not in Free State. ‡ Not in Northern Ireland.
(*a*) Owned by Westminster Bank. (*b*) Owned by Midland Bank.

The Act limits the new fiduciary issue of the Banks operating in Northern Ireland to a sum not exceeding in the aggregate £1,634,000, and in a schedule annexed thereto gives the names of the six banks and the amount of the future issue applicable to each. Reference to the foregoing tabulated statement will show those particulars which agree with the schedule, of which the following is a copy.

Bank	Amount of Fiduciary Issue (applicable to Northern Ireland)
The Bank of Ireland	£410,000
The Provincial Bank of Ireland, Ltd. ...	220,000
The National Bank, Ltd.	120,000
The Belfast Banking Co., Ltd.	350,000
The Ulster Bank, Ltd.	290,000
The Northern Bank, Ltd.	244,000
Total	£1,634,000

While the six banks mentioned have all the right of note issue in Northern Ireland as before, Bank of England notes only are legal tender, along with gold. Although not legal tender in the Free State, Bank of England notes circulate freely therein along with other bank notes.

XVI

SAVINGS BANKS

Trustee Savings Banks: when first established; hindrances to progress.—Their position in 1888 and 1928.—Total deposits and offices.—Post Office Savings Banks.—When inaugurated.—Total deposits in 1928.—Agricultural Credit facilities.—Effects of Land Purchase Act.—Need for lengthened credit.—Agricultural Credit Act 1927: its main purpose.—The Agricultural Credit Corporation: its functions; its capital; how held.—Company may borrow on debentures.—Long Term Credits: to whom granted; security against same.—Short Term Credits: by whom granted; nature of security: a floating charge.—The Co-operative Credit Society, its purpose under the Act.—Facilities for the small borrower: the Creamery, and local Credit Societies.—Membership necessary to the obtaining of loans.—Satisfactory results obtained since passing of the measure.

It was not until 1815 that the first Trustee Savings Bank was established in Ireland, when a bank of this nature was opened at Stillorgan (Co. Dublin), followed by another at Belfast in the following year. The progress of these institutions was retarded in the earlier years, owing to losses sustained through defalcations by officials, panic, distrust among depositors and other causes.

The Trustee Savings Bank movement, from whatever cause, does not appear to have obtained the same footing in Ireland as it has done in both England and Scotland. In 1888, the total deposits of these banks were £2,029,000, and in 1928, forty years later, they had increased to £6,413,576, as against £59,653,673 at the same date for Scotland. This substantial difference in favour of the

latter country is explained by the fact that while in Scotland there were no less than 154 separate savings banks, including branch offices, Ireland had only thirteen in all. Of these there are three in Belfast, a head office and two branches, with aggregate deposits of £3,725,000.

Trustee Savings Banks are conducted in Ireland in much the same way as is customary with these institutions. The smallest sums are received on deposit at a fixed rate of not less than 2½ per cent., and in addition to the ordinary department there is a special Investment Department at each bank.

In addition to the Trustee Banks, there are also Post Office Savings Banks. The latter were inaugurated in 1862, and have shown steady progress since. In 1888 the total deposits in the Post Office Savings Banks were £3,239,000, and in 1928 they had increased to £8,000,770 for all Ireland.

Agricultural Credit Facilities

In Ireland, as elsewhere, the established banks provide short term credit when required to farmers with fair means who can give the necessary security. There are many of their number, however, who lack ready capital, and require credit for longer periods than the banks are willing to grant. Land purchase in Ireland created a class of proprietary smallholders, whose holdings in many cases do not exceed thirty acres in extent. It is computed that farmers in the Free State comprise more than 70 per cent. of this class. It was more especially to meet the needs of such, as well as farmers and landholders generally, that the Parliament of the Free State introduced an Act termed the Agricultural Credit Act, which was passed on 28th May, 1927.

The Agricultural Credit Corporation Limited

The main purpose of the Act as expressed in its preamble was to make provision for the formation of a company having for its principal object the giving of credit to persons engaged in agriculture and businesses ancillary thereto. The Company, which is known as the Agricultural Credit Corporation, had at first a capital of £500,000, in shares of like number of £1 each (10*s*. paid), which by a later Act was increased to £1,000,000. Of the original capital, 200,000 shares were offered for subscription to banks only which carried on business wholly or partly in the Free State. The remainder of the capital was offered to members of the general public, and any balance of share capital remaining was subscribed for by the Minister of Finance. A dividend, or interest, is paid on the capital, at a fixed rate of 5 per cent., payable half-yearly.

The Corporation is managed by a body of seven directors, including the Chairman, four of whom are elected by the shareholders and three by the Minister of Finance, who also may nominate the Chairman.

The Company, or Corporation, is authorised to borrow money on the security of debentures, or "Certificates of Charge," as they are termed, to the extent of its paid-up capital, such securities being guaranteed by the State.

Long Term Credits

Provision is made under the Act for the granting of long-term credits and short-term credits. As regards the former, the Corporation is authorised to make loans to individual farmers against mortgage, for the purpose of constructing buildings and making farm improvements of a permanent nature, also for the purchase of

live stock, machinery, implements, manures, etc. Loans may also be made to any Co-operative Society for the purpose of establishing, carrying on or extending its business, provided such business is ancillary to agriculture.

The long-term credit loans granted by the Corporation are such as are not suitable to be made by banks. They are for long periods, the time allowed for payment being determined by the Board. Loans are granted at a fixed rate of interest—at present 6 per cent.—and provide for periodic repayment of principal.

Short Term Credits—Chattel Mortgage

The short-term credit loans authorised by the Act may be granted either by the Mortgage Corporation, or by recognised banks who are shareholders therein. Such loans are granted on the security of Chattel Mortgage over farming stock, which includes live stock, agricultural machinery, implements and produce. The mortgage granted in such cases is of the nature of a floating charge. Provision is made in the Act for keeping a Register for the registry of all Chattel Mortgages at every Circuit Court Office. Power is granted by the Act to any mortgagee or lender, under the Chattel Mortgage, to sell or dispose of the property conveyed thereunder, in default of payment by the borrower, within the prescribed period. The Act also specifies the circumstances under which a Chattel Mortgage or floating charge may become a fixed charge over the property or stock affected by it.

The Co-operative Credit Society

As individual borrowers are not eligible for loans of less than £50 from the Land Mortgage Corporation, it is the intention of the new measure to meet the needs

of the smallholder by means of the Co-operative Credit Society. The more important of the Co-operative Societies is that which is known as the "Creamery," of which there are a number established in various parts of the country. Farmers who are members or shareholders in such a society can borrow through its agency from the Mortgage Corporation to the extent of £150. Such loans may be obtained for a term as long as seven or eight years, at varying rates of interest up to 6 per cent. In addition to the Creamery Co-operative Society, there are local Credit Societies designed to meet the smallest type of borrower whose requirements may range from a few pounds up to fifty pounds. Such loans may be obtained for periods varying from a few months up to three years at 5 per cent. Individual borrowers are required to produce two sureties to the Credit Society from amongst their members. The loan capital of the Co-operative Credit Society is supplied by the Land Mortgage Corporation, and the Society is required to guarantee the credit of the borrowers and to assume all legal responsibility for repayment of advances made to them on behalf of their members.

The foregoing are the principal provisions of this Act, the purpose of which, like the Acts subsequently passed for England and Scotland respectively, was to assist agriculture and to provide more ample facilities for its needs in the way of credit than had previously existed. Experience of its working will, it is hoped, show that the end in view has been attained.

Co-operation in the sale of dairy and other produce has for long been a feature of Irish farming, similar—though perhaps to a less degree—to what obtains in Denmark and other countries on the Continent. The provisions in the new Act for the granting of credit to

Co-operative Societies connected with the land should operate not only to the furtherance of their interests, but also to that of the smallest farmer who may be a member of such a society.

It is interesting to note that the results gained since the passing of the Agricultural Credit Act have been very satisfactory. The report of the Agricultural Credit Corporation for the second year of its operations, ending 31st October, 1930, shows that the aggregate number of loans issued for the year was 6176, representing a total value of £788,555. This is an increase of 1839 in number and £262,447 in value over the previous year's figures. The average amount per loan in 1930 was £128, and 6017 of the loans were for sums under £500. The net profits of the Corporation for the year were £32,870.

The report states that notable progress has been made with the special credit scheme for loans up to £150, worked through the Co-operative Creamery Societies. The fact is also interesting that, notwithstanding the large total of loans issued, the delay experienced in the collection of instalments was relatively slight, as high a proportion as 95·6 per cent. of the total instalments having been paid within a month after the due date.*

* The figures quoted are taken from the *Journal of the Institute of Bankers* (Ireland) for April 1931, by courtesy of the Editor.

IV. THE BANKING SYSTEM OF FRANCE

XVII

Earliest forms of banking: the Traitants.—Distinguished private bankers.—The Bank of Law: regarded as first bank of issue; its advances to the State; digression to speculative enterprise; subsequent failure.—La Caisse d'Escompte: its founder; amount of capital; nature of business; the bank's difficulties; eventual failure.—Assignats, their nature and purpose: an inconvertible currency.—Exchangeable for mandats: their depreciation; withdrawal from Circulation; annulled by Decree.—La Caisse des Comptes Courants: when formed; capital, and note circulation.—Brief history ending in absorption.

One of the earliest forms of banking in France was that by the *traitants*, or Revenue farmers. They not only collected the taxes due to the State, but were also bankers, as people entrusted their money to them, though it does not appear whether interest was allowed on these lodgments. In addition to the *traitants*, there were private bankers, many of whom were wealthy and loaned money both to the king and the Government. Amongst these may be mentioned Jacques Cœur, under Charles VII; Barthélemy d'Herwart, and Samuel Bernard. The last of the private bankers to the Treasury was Gabriel Julien Ouvrard, who died in London in 1846.

The Bank of Law

The first Bank of Issue in France was founded by John Law, a Scotsman, in 1716. This bank carried on business at the outset in the form of a private bank, its operations in addition to that of note issue consisting of

discounting bills and receiving money on deposit. Owing to its moderate rate of discount—for a time, not more than 4 per cent.—the bank soon became popular, and as the State accepted its notes in payment of dues of all kinds, its business rapidly developed.

It then became Law's ambition to transform his establishment into a great National Bank, which would be at the same time both the bank of the people and of the State. The Regent Philippe of Orleans favoured the founder's object, and in 1718 the bank became known as the Banque Royale. Unfortunately, the immediate result was that large advances were made to the State, and in 1719 the circulation rose to fr. 110,000,000.

About this time Law obtained a monopoly of overseas trade, and founded the Compagnie des Indes. This Company was given the tobacco monopoly and certain other privileges in return for the reimbursement of the National Debt of fr. 1,500,000,000. As the result of this operation, the note circulation attained the high figure of fr. 2,696,000,000.

Owing to the rash speculation of the period, the excessive note issue and the lack of specie reserves, a crisis arose in 1720, in the midst of which Law's bank succumbed and ceased business.

La Caisse d'Escompte

No further attempt was made to establish a Bank of Issue in France for more than half a century after the failure of Law's bank. In 1776 a Decree of Council authorised the formation of a bank called the Caisse d'Escompte by Penchaud, a Genevese banker. Its capital consisted of fr. 15,000,000, of which fr. 10,000,000 were deposited in security with the Treasury. Commercial

bills were discounted at rates which were not allowed to exceed 4 per cent.

The Caisse d'Escompte had a considerable note circulation and made good progress until 1783, when it got into difficulties owing to the absence of a metallic reserve. Gold payments were suspended for a year.

A reorganisation took place, and the bank again became prosperous. All went well until the State started borrowing extensively from the bank at intervals between 1787 and 1789. At the latter date these advances amounted to fr. 155,000,000. This debt was liquidated by the issue of fr. 170,000,000 of assignats, and in 1793 the bank was wound up. Its commercial credit was excellent, but it failed to carry the weight of State loans.

The whole outstanding issue of State assignats amounting to twenty-one milliards was repudiated by Decree of 21st May, 1797.

French Assignats

As this form of paper money relates to the period here dealt with, because of the place it filled in the currency of the time, it deserves more than a passing reference.

Assignats were issued by the Treasury during the period immediately preceding the French Revolution. The original purpose of their issue was to purchase the lands held by the Church and clergy, to be held thereafter by the nation through its Government. It was proposed to sell those lands, and later those of the *émigrés* and the Crown, to the various municipalities throughout the country, and in lieu of cash, mortgages were to be given in payment termed assignats. At first the assignats bore interest, but afterwards, as they passed from hand to hand like ordinary notes and for

varying amounts down to the smallest sums, the promise of interest was suppressed and they became an inconvertible currency. In 1796 the assignats in circulation had reached so large a total as fr. 45,500,000,000, and their value continuously depreciated, so much so that they became almost valueless. Assignats were in circulation in France from 1790 to 1796, and at the latter date were exchanged for *mandats*. The *mandats* were a new kind of paper money constituting a mortgage or preferred claim against all the lands of the Republic. They were not prized by the public any more than the assignats, and were at a discount of 82 per cent. on the day of their issue. Notwithstanding this, the *mandats* were better than assignats in respect that the holder could acquire national property in exchange for them. The public, however, took no notice of the difference, and owing to their constant depreciation they lost in the end 99 per cent. of their value, when their circulation stood at fr. 2,400,000,000. Becoming unacceptable as currency, the *mandats* were withdrawn from circulation in March 1797, and finally annulled by Decree in May of the same year.

La Caisse des Comptes Courants

This bank was formed in 1796 after the first Revolution, with a capital of five millions, divided into 1000 shares of fr. 5,000 each. Its note circulation amounted to twenty millions. Several directors of the old Caisse d'Escompte were given seats on its Board of Administration. The experience which they had formerly gained contributed in no small measure to the success which the bank enjoyed, until the time of its fusion with the Bank of France in 1800.

XVIII

THE BANK OF FRANCE

When and by whom founded: purpose of formation; the Bank's capital; original and present amount.—Its administration: functions of governing bodies.—The Bank's relations with Government: nature of services rendered thereto.—Relations with other banks.—Banker of Clearing Banks: re-discounts to other banks.—The Bank in relation (1) to its Customers, (2) to public generally.—Sole Bank of Issue in France: its facilities for discounting of bills and general banking business.—Legislation affecting the Bank.—Decrees of 1803; 1848; 1857; 1871; and their effects.—Later Decrees of 1897; 1918, and 1928, affecting the Bank's present position.—The Bank's metallic Reserve.—Its notes legal tender without restriction.—The Bank's Weekly Return: annual published report.

THE *place d'honneur* in the French banking system belongs to the Banque de France, which was founded in February 1800 by Napoleon Bonaparte, then First Consul of France. As soon as Napoleon was established in power, he turned to his financial advisers for a plan for a National Bank. The material was found ready to hand in the Caisse des Comptes Courants—above referred to—which was taken over by, and merged in, the Bank of France.

According to its original constitution, the purpose for which the bank was established was, *inter alia*, to remedy by a combination of interests, public and private, (1) the displacement and disposition of those resources which are the life blood of commerce and the nation, and (2) the debasement of the public credit and the stagnation in the monetary circulation which had resulted from the Revolution and from long and costly wars.

The capital of the bank was at first fr. 30,000,000 in 30,000 shares of fr. 1000 each, to which the Treasury subscribed five million francs. It is worthy of note that among the bank's original subscribers Napoleon's name was first on the list for thirty shares. The bank's capital has been increased at various periods, and at present amounts to fr. 182,500,000, with reserves of over fr. 300 millions.

It was the purpose of the founder to make the bank national in its operations, as well as in name, and its history has shown that it has amply fulfilled his intentions.

The Administration of the Bank

The Governor and the two Deputy-Governors of the bank are appointed by the President of the Republic on the recommendation of the Finance Minister. There is no specified term fixed for their continuance in office. The shareholders have the right to elect fifteen regents and three *censeurs* or auditors, through their representative body the General Assembly, and those thus elected, with the Governor and Deputy-Governors, form the General Council which meets weekly. The *censeurs* are without voting power, and are chiefly devoted to the supervision of operations for report to the shareholders. The General Council is responsible for the administration of the bank and the conduct of its business, and has control over its note issues, as well as its loans and discounts and the fixing of rates. It is assisted by a Discount Council of shareholders composed of twelve members. The Governor of the Bank presides over all meetings of the General Council, and every important decision come to must have his approval. He is entrusted with full executive power in the bank's

administration. In the Governor's absence, his place is taken by the Deputy-Governors.

It says much for the genius of those who drew up the original constitution of the bank that there has not been found cause to alter it in substance from its original form, because of the satisfaction it has given.

The Bank's Relations with, and Services to, the Government

From its beginning the Bank of France has had close connection with the State. It has been continuously the banker of the State, and because of the relations subsisting, the latter has claimed a share in its government, and a right of intervention in the administration of its affairs.

In the capacity of banker to the French Government, the bank's principal function consists in keeping the Treasury balances. The Treasury pays into the bank the funds at its disposal, and draws against them as required. The bank at its branches receives State funds and local Treasury receipts, which are then transferred and concentrated at the head office in Paris, where they remain at the disposal of the Minister of Finance. All payments on account of the Treasury are undertaken by the bank free of charge.

The dividends on French Rentes were at one period payable through the bank, but are now, like other Government payments, effected by the Treasury. The bank still collects Rente Coupons free of commission.

While the Bank of France may not in a strict sense be bound to issue French Rentes or Treasury Bills, yet it has never failed to do so when required by the Ministry of Finance. Every facility is afforded for the purchase, or transfer, of Government Stock and Bonds. During

the War period—1914–18—large issues of these securities, amounting in the aggregate to nearly fr. 17,000 millions, were made through the bank's agency.

On frequent occasions the bank has made advances to the French Government, on which a fixed rate of interest was charged. When the bank's Charter was renewed in 1897, and a further permanent advance was made, it was stipulated that thereafter all such loans were to be free of interest.

Possessing as it does the exclusive privilege of note issue in France, the bank is required by the Government to keep such issues under constant control, and to safeguard its monopoly.

The Bank's Relations with Other Banks

Banking business is not centred in Paris in the same way as English banking centres in London, but most of the large banks, with the exception of the Crédit Lyonnais, have their principal office in the capital. Almost all banks of good standing, whether in Paris or in other cities throughout France, have direct connections with an office of the Bank of France, and commonly re-discount with it a portion of the bills they hold. Some of these banks, such as the Comptoir d'Escompte, were originally formed in order to serve as intermediaries between the Bank of France and the trading community in the matter of discounts. As it was the bank's rule to require three signatures on bills tendered to it, these institutions, by endorsing the bills, supplied the third signature.

All the banks which are members of the Paris Clearing House have accounts with the Bank of France. An important service rendered by the latter consists in the

settlement of accounts between the various banks after each day's exchanges have been made.

While in normal times the Bank of France has to meet the competition of other institutions in the ordinary way of business, in periods of monetary crisis it has been able, with its large resources, to lend assistance to other banks in temporary difficulty, and thereby has helped to restore confidence.

The Bank's Relations with its Customers and the Public

The Bank of France may be said to divide its operations into two classes, the one consisting of transactions on behalf of its permanent customers keeping a regular account with it, and the other of transactions with the public generally. A peculiarity of French banking, common more or less to all the large establishments, is that anyone having certain occasional money matters to adjust can avail himself of the machinery of the bank for the nonce, although having no account therewith.

An account may be opened with the Bank of France, whether a simple deposit or a current account, by any person who is properly introduced, or of whose identity the bank is satisfied. Overdrafts are not granted except on advance accounts, and then only against approved securities.

In addition to its important function as the sole Bank of Issue, the Bank of France carries on a large discount business. Three signatures are required on each bill submitted for discount, the third signature—that of endorser—being dispensed with only when approved stocks are deposited as collateral security. The minimum sum for which a bill may be drawn is five francs.

It appears to be the practice in France to draw bills in settlement of nearly all transactions. A very large proportion of such bills are not domiciled at a bank, and presentation for payment has to be made at the domicile of the acceptor.

The Bank of France issues drafts, grants letters of credit, and transfers money to the credit of customers' accounts at any of its branches when required. It receives for safe custody securities and valuables, not only for regular customers, but also for those who may not have a bank account. A commission for this service is charged in all cases.

The Bank also executes Stock Exchange transactions (*Ordres de Bourse*) on behalf of its clients. Purchases and sales of Government and other stocks are effected at any time when requested.

Legislation affecting the Bank

As might be expected in the case of the Bank of France, its administration and operations were the occasion of various decrees issued at different periods by the Executive Government.

The Act or Decree of 1803 gave the Bank of France the exclusive right of note issue in Paris. This privilege was enlarged by the Decree of 1848, which provided for the fusion of the nine provincial banks with the Bank of France, the latter being permitted to add the aggregate amount of the issue of these banks to its own.

By a law passed on 9th June, 1857, the lowest value of note in circulation was fixed at fr. 50. (A later Decree of 29th December, 1871, authorised the issue of 10 and 5 franc notes.) By the same statute (1857) the Bank was required to establish a branch in every Department where one had not previously been formed. This

statute also permitted the Bank of France to exceed, as from the date of its passing, its maximum rate of discount, which was till then 6 per cent., on condition that the State should participate in the resulting profits.

Important legislation bearing on the bank's present position was enacted in 1897, when its Charter was renewed. It was then decreed that the bank should open fourteen additional branches in the principal towns where it had not previously a branch established. An additional permanent loan was then made to the State of fr. 40,000,000, without interest. This loan was required to establish Agricultural Credit Banks (*Sociétés de Crédit Agricole*).

In 1918, when the bank's Charter was again renewed, it was decreed that thereafter, when the Bank's annual dividend exceeded 240 francs per share, an amount equal to the excess should be paid by the Bank to the French Exchequer.

By the Convention made between the Government and the Bank of France in June 1928, the latter agreed to grant the State a new and permanent interest-free loan of fr. 3 milliards. An important measure stabilising the franc was passed at the same time, to which more particular reference is made later.

These Decrees serve to indicate the nature of French legislation as affecting banking, more particularly as regards the Bank of France. They also show that, while the latter enjoys certain privileges not possessed by the other banks, it has in a manner to compensate for them, owing to the services required from it by the State. It ought to be said, however, that the bank has loyally responded to all the demands made upon it during the century and more of its history.

Branches of the bank were at first established in the principal towns only. Gradually they became extended, until there may now be said to be a network of branch offices throughout the whole of France. The total number of branches and auxiliary offices doing business at the end of 1928 was 261.

Bank notes circulate in France to a much greater extent than in England, owing to the fact that the cheque is not so popular or so extensively used in the former country as in the latter.

It has been the policy of the Bank of France for many years to maintain a large metallic reserve, in order to provide a solid basis against its large note circulation. While the gold standard has now been restored, the obligation of the Bank of France to redeem its notes in gold is conditional. The notes of the bank continue to be legal tender up to any amount. Prior to 1928 the maximum of the bank's circulation was fixed by statute, and the limit had been frequently raised. An obligation rested upon the Bank to keep its circulation within the authorised limit, and at the same time fully covered.

The Weekly Return of the Bank of France showing the amounts respectively of its notes in circulation, its Rest and Reserves, is issued every Thursday. In addition to this Weekly Statement the bank publishes a Balance Sheet, the same as any other bank, of its assets and liabilities half-yearly on 25th June and 24th December.

Annexed hereto is a copy of the bank's published Balance Sheet as at 26th December, 1930, in the revised form, showing the various items of assets and liabilities on the stabilised basis.

The "profits" shown in the Balance Sheet as fr. 272,696,000, though stated separately, form part of the bank's capital. The ratio of gold coin and bullion

BANK OF FRANCE, 26TH DECEMBER, 1930

Liabilities.

Liabilities	Frs., 000's omitted.
Capital	182,500
Profits	272,696
Reserves	22,106
Do.	4,000
Notes to Bearer in Circulation	76,436,267
Treasury Current Account	4,638,755
Sinking Fund Department, Current Account	7,985,542
Current and Deposit Accounts	11,125,833
Other Sight Liabilities	572,171
Other Liabilities	1,759,692
Total Liabilities	Frs. 102,999,562

Equal in sterling to £833,329,789.)

Assets.

Assets	Frs., 000's omitted.
Gold Coin and Ingots	53,577,609
Silver and Copper Coin	581,583
Current Postal Accounts	367,422
Available at sight abroad	6,791,969
Advances on Ingots and Gold Coin	—
Commercial Bills discounted	8,385,200
Negotiable Bills bought in France and abroad	19,430,221
Advances on Securities	2,900,672
Negotiable Bonds of the Sinking Fund Department	5,304,398
Loans to the State without Interest	3,200,000
Various Assets	2,126,998
Government Securities	112,981
Premises	220,509
Total Assets	Frs. 102,999,562

(Equal in sterling to £833,329,789.)

to sight liabilities—notes in circulation and current accounts—at the date of this Return was 61 per cent., being considerably above the statutory requirement of 35 per cent. The balances available at sight abroad amounting as stated to fr. 6,791,969,000 are not included in the gold reserve.

XIX

JOINT STOCK BANKS

The banques d'escompte et de dépôt : leading institutions. (1) The Crédit Lyonnais, where and when founded : discounts a speciality; its branches in France and other countries; its subsidiary company.—The Société Générale : purpose of formation; its operations in France and her colonies; the bank's position as to capital, etc., and deposits.—The Comptoir National d'Escompte, the oldest of the Joint Stock banks; its original title; reconstruction in 1889; later developments; branches and affiliations.—Other important banks.—Nature of business transacted, etc.—Banques d'Affaires : most important of their number; specialise in issue business and industrial finance; their foreign operations and connections.—Local and Regional Banks, established in various towns : competition with the larger banks; amalgamations and branch extensions; Long Term Credit a feature in their operations.—Private banks : no restrictions to their formation.—La Haute Banque : representative institutions; numerous private banks established; nature of their business.

WHILE the Bank of France occupies the central position in French banking, there are a number of outside establishments which also fill a very important place in the system. Chief among these are the institutions organised in the form of Joint Stock Companies which carry on a regular banking business. They are classed as banques d'escompte et de dépôt, as distinguished from those which are purely banques d'affaires. Of their number the following take leading place, viz. :

The Crédit Lyonnais.
The Société Générale.
The Comptoir National d'Escompte de Paris.

The first-named bank was formed at Lyons as a limited company on 6th July, 1863. Although its head office has been from the first in a provincial city, it occupies a position of importance second to none of the Joint Stock banks of France. It makes a speciality of discounts, but at the same time transacts every description of banking business. In the interests of its large *clientèle*, and to keep fully informed of trading conditions in other countries, the bank, like other large Joint Stock institutions of to-day, keeps a special department for this purpose, which is under the direction of experts.

The Crédit Lyonnais has a great many branches established throughout France, with a central office in Paris and a number of branches in that city. It has also branch establishments in other countries, including Belgium, Switzerland, Spain, Egypt and Tunis. The bank has also two offices in London. Its total branches number over 1200.

In conjunction with the Comptoir National d'Escompte de Paris, the Crédit Lyonnais in 1919 established a subsidiary institution named the Union pour le Crédit à l'Industrie Nationale, for the purpose of providing long term credit to commercial and industrial customers of both banks. This accommodation neither bank could itself have directly given, because of the nature of its constitution.

The bank's original capital was fr. 20 millions fully paid. It is now fr. 408,000,000, with a reserve fund of fr. 800,000,000, and Deposits and Current Accounts fr. 13,117,817,515 (£105,618,498 sterling).

The Société Générale pour favoriser le développement du Commerce et de l'Industrie, giving it its full name, obtained its authorisation by a Decree of 4th May, 1864,

and was incorporated the same day. As the bank's original full title shows, it was formed to promote the manufacturing and commercial enterprise of the country, and this it has successfully done from the start. The operations of the bank are conducted on an extensive scale both in France and its colonial possessions. Because of losses sustained during the crisis of 1882, the bank has since then given its principal attention to ordinary banking business. It had originally a paid-up capital of fr. 120 millions, which has been increased to the present figure of fr. 320 millions, and has a reserve fund of fr. 380 millions, with total deposits of fr. 12,953,975,391 (£104,299,318 sterling).

The Société Générale has in France and North Africa over 1450 branches and agencies, of which 105 are in Paris and suburbs. In addition to two offices in London, it has foreign connections and affiliations with banks and business concerns of other countries.

The Comptoir National d'Escompte, which next to the Bank of France is the oldest banking institution in France, was formed in 1848. It was then the Comptoir d'Escompte de Paris, its principal business, as the name implied, being that of bill discounting. It discounted paper bearing only two names, which was re-discounted with the Company's endorsement at the Bank of France. The Comptoir d'Escompte was very successful for a number of years, and gave material aid to trade and industry in various ways. Owing to large advances made to a commercial company, the Société des Métaux, which made a number of unfortunate speculative ventures in copper and tin, the Comptoir suffered heavy losses. With the assistance of the Bank of France, and one or two other banks which came to its aid, it recovered its position, and in 1889 was recon-

structed under its new name—Comptoir National d'Escompte de Paris.

In 1891 the bank absorbed the Banque de Dépôts et Comptes Courants, which had a capital of fr. 15,000,000 and was well established in Paris. This absorption added to the Bank's prestige, and its business has since shown continuous development. In addition to the bank's branches in Paris and the provincial towns, numbering in all over 400, it has branches in London, Manchester, Liverpool, Brussels and other foreign cities. Through affiliation with the French-American Banking Corporation, the Comptoir has direct representation in New York.

The bank's paid-up capital has been raised from time to time, and at present stands at fr. 400 millions, with a Reserve Fund of fr. 448 millions, and total resources fr. 10,280 millions (£82,769,000 sterling).

In addition to the aforementioned banks, there are other important institutions doing a large business in Paris and other cities throughout France, among which should be named the Crédit Commercial de France; the Banque Nationale de Crédit; and the Crédit Industriel et Commercial. These, as well as the first three leading Joint Stock banks, are members of the Paris Clearing House.

All the banks named discount commercial paper payable in France or in foreign countries. They allow advances against securities; receive sight and time deposits on which interest is allowed, and open current drawing accounts some of which are also interest-bearing. Further, they issue drafts and make transfers on account of customers; attend to the purchase and sale of securities through brokers, and receive same for safe custody. In addition, they do an extensive arbitrage business.

These, and such-like banks, have all been formed as Sociétés Anonymes, or limited liability companies. The law of France at present governing the establishment of such companies is that of 1867, which has been modified by subsequent statutes, of which the latest is that of 30th January, 1907. In accordance with this law as amended, no company can be registered until the whole capital has first been subscribed, and one-fourth part paid up. When the capital is less than fr. 200,000, the shares may not be for an amount less than fr. 25, and when the capital is over fr. 200,000, shares may not be for an amount less than fr. 100. The responsibility of a shareholder continues for two years after transfer, for shares which may not be fully paid. Seven subscribers are the minimum to form a company.

Banques d'affaires (Investment Banks)

Besides the ordinary Joint Stock banks, distinguished as banks of discount and deposit, are the banques d'affaires or banques de crédit mobilier. Such banks specialise in the issue business and in the flotation of industrial and financial undertakings both in France and abroad. Unlike the ordinary banks, they confine their attention for the most part to industrial finance. They are the bankers of the companies which they are instrumental in establishing, and whose shares they handle and place among their customers. They also participate in the stock or shares of companies which they are successful in forming, or in which they may have an interest.

The most important of the French banques d'affaires is the Banque de Paris et des Pays-Bas, formed in 1872, which has a capital of fr. 300,000,000 and a Reserve Fund of fr. 316,400,000. In addition to its head office

in Paris, it has branches at Amsterdam, Brussels and Geneva. Other important banques d'affaires are the Banque de l'Union Parisienne, the Banque Française pour le Commerce et l'Industrie, and the Crédit Mobilier français.*

The directorate of these investment banks is composed for the most part of representatives of the large private banks, who are possessed of means. The banques d'affaires have agents and correspondents in foreign countries, by whom they are kept informed of trading conditions on the spot.

During the War and subsequently, the foreign operations of the French banques d'affaires were curtailed, but with the removal of restrictions by the law of January 1928, it is expected that such operations will again be carried on as formerly.

Local and Regional Banks

Although the principal Joint Stock banks of Paris through their branch system receive a large measure of support throughout France, in most of the cities and towns there are local banks established which compete with them. Unlike the English Joint Stock banks, which in a number of cases absorbed country and private banks, converting their offices into branches, the Joint Stock banks of France generally preferred to open branches in provincial towns alongside the local bank. The latter, despite this competition, has been able as a rule to hold its own, chiefly because of long associations, an intimate knowledge of local industry, and financial support given and reciprocated.

These local banks have in a number of cases

* The Banque Française pour le Commerce et l'Industrie was absorbed by the Banque Nationale de Credit in 1922.

amalgamated with similar institutions in their neighbourhood, thereby developing into regional banks. Branches have been opened, and frequently a house has been established in Paris.

A feature in the operations of the local banks is their long-term credit loans to customers, which while it may give them an advantage over the large Joint Stock bank which prefers to keep its advances in more liquid form, exposes it to greater risk, more especially in times of crisis. The local banks also function by giving assistance to their customers in the flotation of regional securities, which are frequently issued in the form of debentures.

Many of the local and regional banks have increased their capital since the War, corresponding with the increase of their deposits.

Private Banks

Private banking in one form or another has been carried on in France since a comparatively early date, and prior to the era of Joint Stock banking. In the times of the monarchy there were banquiers privés who frequently lent directly to the ruling sovereign, as was previously noted. Private banking does not appear to have suffered in any way under the change to Republican government, despite competition from the Joint Stock banks. Such a condition is due to the absence of laws forbidding the formation of private banks, or restricting their functions.

Among the private banks of France there are what are termed "La Haute Banque," chief of which is the house of Rothschild Brothers of Paris, which has always been identified with big operations such as the placing of foreign loans, and making advances to corporate bodies.

In addition to the house of Rothschild, there are in

Paris a number of private firms of repute whose partners occupy seats on the boards of large industrial companies and investment banks. Among these private firms the following are well known, namely, Hottinguer & Co., Mallet Brothers & Co., and Neuflize & Co.

In the various cities and towns of the provinces, as well as in Paris, there are private banks established. The wealthier of these institutions participate in local industrial issues, and make loans on current account. The smaller banks, besides carrying on a savings and current account business, act in many cases as intermediaries between the merchants and manufacturers on the one hand, and the Bank of France and the large Joint Stock banks on the other.

Many of the private banks specialise in the business they engage in. Thus in the large cities they have their *clientèle* made up in general of merchants and manufacturers pursuing kindred lines of business. Certain of these houses discount paper specially for the hardware trade, and others again for textile industries and so on. By this system these banks are able to keep well informed of the position of their respective customers. As might be expected, they tend to suffer severely when a crisis occurs in the particular industry in which they are interested.

While the private banks may be said to carry on a general banking business similar to that of the Joint Stock banks, they are to some extent dependent on the latter for collection and re-discount facilities, and the liquidation of exchange business.

XX

MORTGAGE BANKING

Governed by Statute of 28th Feb., 1852.—Provisions for loans with long maturities.—The Banque Foncière de Paris, the first mortgage bank.—Similar banks formed in other towns.—A fusion of banks consummated under the name of the Crédit Foncier de France.—Constituted a Central Agency for all land credit transactions: its administration and nature of operations.—Co-operative Agricultural banks.—Date and nature of Statute authorising their formation.—Long Term Credit to farmers.—Acts of 1897 and 1899.—Formation of the Caisses régionales crédit agricole mutuel.—Government loan authorised for their assistance.—Foreign Banks in France: when first established; privileges granted; nature of business.—Bank Cartel, its scope.—Post Office banking: varied operations.—Paris Clearing House: when founded; its membership; fixed hours for clearing; mode of settlement; year's totals.

A Decree of 28th February, 1852, laid the foundation of the Mortgage Banking Scheme. It provided for loans repayable in yearly instalments with long maturities secured by mortgage bonds on real estate and bearing interest. Under Government patronage, a company with a capital of fr. 25,000,000 was formed in Paris, called the Banque Foncière de Paris. Other companies on the same plan were formed in other cities in France. Because of the clashing of interests, the Government resolved to bring about a fusion of these banks, and to make the Paris Banque Foncière a central agency for all land credit transactions. The consolidation was accomplished on 10th December, 1852, and the central bank, extending its scope throughout the whole country, took the name of Crédit Foncier de France. It received a subsidy of fr. 10,000,000 from the State, and its capital was increased

to fr. 60,000,000. The administration of the bank was assigned to a Governor and two Sub-Governors appointed by the Government. There was also an Administrative Council chosen by the shareholders. The Crédit Foncier is authorised to borrow from the public on the security of premium bonds repayable in 50 or 60 years, and bearing interest at a fixed rate. The loans must not exceed half the value of the property pledged, upon which a first mortgage is placed in favour of the institution. The capital of the bank must be equivalent to at least 5 per cent. of the bonds outstanding. In addition to long-term loans, the Crédit Foncier grants advances at short maturity, not less than ten years. The company makes advances at long or short terms not only to private borrowers, but also to Department Administrations, Corporations, and Agricultural Associations for the construction of improvements. By means of the loans made to municipalities by the Crédit Foncier, a great impetus has been given to the building and improvement of cities.

In addition to its mortgage business the Crédit Foncier does a regular banking business. It discounts commercial paper, makes loans on securities, conducts current accounts and negotiates new issues when required. It has at present a paid-up capital of fr. 300,000,000, and Reserve Funds of fr. 820,000,000. Its total of mortgage loans on 31st December, 1930, was fr. 10,753 millions (£86,578,099 sterling).

Co-operative Agricultural Banks

Co-operative banking does not appear to have attained the same success in France as it has gained in Germany and some other countries, which may be due to the fact that the system has not been so long in operation in the

former country as in the latter. It was not until 1894 that the first important measure was passed by the French legislature authorising the formation of agricultural credit companies consisting of members of farming syndicates. The object of these companies was to assist their farmer members to obtain loans at moderate rates for the carrying on of agricultural operations. Such loans were of the nature of long-term credit, and could be repaid by instalments. The companies were authorised to receive sums on current account, or deposit, and to contract loans so as to increase their working capital. The original capital was not represented by shares, but was formed by the subscriptions of members of the company. These co-operative companies had the privilege of exemption from ordinary taxation.

Despite these efforts to assist agriculture, it was felt that more encouragement was needed on the part of the Government. Accordingly a law was passed in 1897—to which reference has been made—providing for a new loan of 40 millions from the Bank of France to the State without interest. A later Act passed in March 1899 authorised the formation of the *Caisses régionales de crédit agricole mutuel* (regional banks for mutual agricultural credit) and decreed that the amount of the loan of 40 millions which was granted should be placed at the disposal of these banks. To this loan was added a sum represented by an annual royalty payable by the Bank of France to the State on its note circulation, with a minimum of two million francs per annum. It was provided that the total of the advances made by the Caisses régionales de crédit must not exceed four times the amount of their capital, and that the term of an advance may not exceed a period of five years, which may be renewed.

In 1911 the State obtained from the Bank of France a supplementary free loan of 20 millions to assist the agricultural banks.

The Bank of France discounts bills drawn on the local Co-operative Societies, and endorsed by the Caisses régionales.

"At the end of 1908 there were as many as ninety-four regional agricultural banks established in France, with 2636 affiliated Co-operative Societies, embracing nearly 117,000 individual members." *

Foreign Banks in France

In the years immediately preceding the late War a beginning was made on the part of foreign banks in opening offices in Paris and other cities in France, which they had liberty to do. There are now a number of these establishments, including American and British, doing business in Paris, who are accorded the privilege of membership in the Paris Clearing House. These foreign banks, in addition to agency operations, do a considerable local business. They also carry out all kinds of overseas transactions, including documentary and exchange work, collections and transfers. They are admitted to the Bourse, and have the privilege of re-discounting with the Bank of France.

Owing to the growing importance of Paris as an international money market centre, the probability is that the number of foreign banks seeking representation in that city, if not also in other cities in France, will increase.

Meanwhile among American and English banks, the following have offices in Paris and share the advantages of membership of its Clearing House along with French

* "Foreign Banking Systems," p. 618.

banks, viz., The American Express Company, Inc., Paris; Bankers Trust Company; Equitable Trust Company (now amalgamated with Chase National Bank); Guaranty Trust Company; The National City Bank of New York (France); Barclays Bank, France, Ltd.; Lloyds and National Provincial Foreign Bank, Ltd.; Westminster Foreign Bank, Ltd.

Bank Cartel

In 1925 the first efforts were made to establish standard minimum rates of commission and charges, and maximum and minimum rates of interest. The scheme has so far succeeded in its object that all the important banks in the country, including the foreign banks, have adhered to it.

Post Office Banking

A considerable banking business is done through the French Post Office. Current accounts are opened; drawings, transfers, etc., may be made, and bills and cheques are collected for the credit of account holders. Items for collection are despatched by post direct to the post office of the town where they are payable. At that point they are handed over to postmen who collect them in the course of their rounds. The Post Office allows no interest on drawing accounts, but on fixed deposit accounts interest is granted at the rate of 3½ per cent. Interest is capitalised, or added to the principal sum on deposit, on 31st December of each year. The total amount at credit of depositors with the Post Office at the end of last year (31st December, 1930) was fr. 14,903,927,871 * (equivalent to almost £120,000,000 sterling).

* Figures supplied by courtesy of Le Directeur de la Caisse nationale d'Epargne.

The Paris Clearing House

The Clearing House, or Chambre de Compensation, of the Paris banks, which is in the Rue des Italiens, was established in that city in 1872, and its operations are conducted on somewhat similar lines to the London Clearing House. The Paris establishment has a larger membership than that of London, there being as many as fifty banks represented, amongst which are several foreign banks having offices in the French capital.

Clearing of cheques takes place daily, *i.e.*, on every business day at 10.30 a.m. and at 1.15 p.m., when the clerks or officials from the various member banks meet at the Clearing House for this purpose. They also meet at 4 p.m. for the day's settlement, when the position of each bank is shown whether debtor or creditor in the final result. The Bank of France, with which the Clearing banks have each an account, acts as settling bank. By means of transfer debit and credit vouchers (*mandats de virement*) payment is made of the balance against, or in favour of, each bank as the case may be. The total of debits as shown in the final statement balances with the total of credits, and no cash passes hands.

It may be of interest to note that a new séance or sitting of the Clearing House now takes place at 5.15 p.m., in addition to those mentioned. This additional Clearing is for unpaid items in order to avoid numerous *impayés hors Chambre*. The day's settlement of the Clearing, however, still takes place at 4 p.m., as the unpaid cheques and bills presented at 5.15 p.m. are only settled the next day.

The regular clearing of provincial cheques by the Paris Clearing House was not taken up until 1918. Prior

thereto the Bank of France had given facilities for the Clearing of cheques at a number of towns where it had branches.

Owing to the fact that cheques are not so extensively used as a medium of payment in France as they are in England, the Paris Clearing House does not show so large a turnover as that of London, but it should be noted that many payments are made by transfers between one account and another in the books of the Bank of France. The forms used for this purpose closely resemble cheques in character.

The total value of cheques and negotiable documents passed through the Paris Clearing House each year amounts to a large figure. The aggregate sum for 1929 exceeded 512 milliard francs, or in exact figures fr. 512,464,839,752 (equal in sterling to £4,137,118,267).

XXI

POST-WAR DEVELOPMENTS

STABILISATION OF THE FRANC

Stabilisation of the franc: when effected; new par rate.—Other enactments then made: revalorisation of the Bank's assets; note redemption; maintenance of a gold reserve.—Changes in currency in use: notes and specie.—Paris as an international money centre: enlarged powers granted Bank of France; development of bill market; formation of Banque Française d'Acceptations; Bank of France; granting of short loans at bill rate.—Centralisation: absorption of smaller banks by larger institutions.—Rationalisation: re-organisation in industry; progress in mechanisation among banks.

ONE of the most important changes effected in French currency was that which took place at the end of June 1928. This consisted in the stabilising of the franc and the restoration of the national currency to a gold standard basis by a measure passed at that period. Although the exchange value of the franc had varied very little for about two years prior to the passing of the Act referred to, there always remained a degree of uncertainty as to the figure to be ultimately chosen. The new par rate of the franc fixed upon was 124.21 to the pound sterling, and 25.52 to the dollar, which in each case was only a few centimes higher than the quotation previously ruling.

Although the new rate of the franc is much lower than it had been since the War—in July 1926 it touched for a time fr. 240 to the pound—its value in sterling is only about one-fifth of what it was prior to 1914, when the par

value was fr. 25.22. This depreciation of the French currency, with a corresponding rise in general prices, has been a feature of nearly all European currencies during post-War years, though more marked in those of some countries than of others.

With the passing of this important measure stabilising the franc, several other enactments were also made as a consequence. It was provided that a revalorisation of the assets of the Bank of France should take place on the basis of the stabilised rate, and the profit accruing to the bank applied towards liquidation of the floating debt of the State to that institution. The Bank was required to redeem its notes in gold if beyond a minimum to be fixed by agreement with the Finance Minister, and at the same time to buy all gold offered to it at the par rate, less cost of minting. All laws regulating the export of gold and silver were abolished, thereby opening the way to a free money market. A gold reserve of not less than 35 per cent. of the combined amount of its notes in circulation and its liabilities on current account must be maintained by the Bank of France, but no fixed limit is placed to the amount of the issue.

These were not all the consequences of stabilisation. They also extended to the units of currency in circulation, both notes and coin. The five-franc and ten-franc notes, till then in circulation, were to be gradually withdrawn and after 1932 would cease to be legal tender. It was the intention of the Government to issue in their place five and ten-franc silver pieces, but on the recommendation of the Finance Commission it was resolved that the new silver coins should be ten and twenty-franc pieces. Silver coins are now legal tender up to fr. 250. The fr. 100 and fr. 50 notes are to be retained, and gold coins of fr. 100 are to be minted.

Paris as an International Money Centre

The Government's efforts in reorganising the national finances were ably supported by the Bank of France. To enable it to do so more effectively, the Bank obtained an enlargement of its powers, which it secured by the granting of a new Charter in June 1928. In terms of this Charter, the Bank was empowered to intervene in the open short-term capital market when it was deemed necessary, so as to obtain monetary control. The primary end in view in these operations is the restoring of Paris to its former place as an international money market, equally with London and New York.

One of the ways in which the Bank of France has sought to attain this end is by building up a large gold reserve, and this it has accomplished. The bank had at the end of December 1930 a reserve in gold bullion and coin of fr. 53,577,609,000 (£433,475,800 sterling), which was only exceeded by that of New York, and was larger than the reserve of any other European State. Further, the bank has assisted in securing for France a stable rate of exchange within gold point limits, from which there has been but slight variation since the new basis was fixed upon. No doubt the possession of a large metallic reserve has been a factor in this stability, as it inspires a feeling of confidence. In addition to a stable exchange, the Paris rate of discount has been uniformly as low as that of any European country except Switzerland, and seldom rising above 3½ per cent. By such low rates for short-term money, valuable assistance has been given to commerce and industry. The rates for overdrafts and long-term credits of all kinds are of course considerably higher.

In order to attain the position of an international

money centre, a bill market is necessary, and the development of such was begun before the end of last year by the formation of the Banque Française d'Acceptations. This Bank is intended solely for acceptance business, and has the direct support of several of the great French and Belgian Joint Stock institutions. It has a capital of fr. 100,000,000, of which fr. 25,000,000 is paid up. It is understood that while not directly participating, the Bank of France favours the new institution, and will lend it strong support as an agency in the development of the Paris bill market. One of the ways the central institution is expected to assist the new Acceptance Bank is by making the bills of the latter eligible for re-discount.

An important innovation which the Bank of France has introduced, and which is expected to assist towards the development of Paris as an international financial centre, is its granting of short loans secured by bills at the official rate of discount. The banks which at the end of each month have had to transfer sterling or dollar balances to meet their requirements, will thus be able to have their needs supplied without having recourse to such procedure.

Centralisation : Rationalisation

While the Banque de France has taken a leading share in the post-War development of the country's economic and industrial condition, the other banks have also borne their part. In order to their doing so more effectively, they increased in a number of cases their respective capitals, thereby strengthening their position. Along with increases in capital, there has been a growth of deposits, due partly to the reconstruction of savings and a greater tendency on the part of the people generally to deposit with the banks than formerly obtained.

There has also been in a number of cases the absorption of smaller banks by larger ones, either through failure, or as the result of unsuccessful competition among the former. In all probability this process of combination will extend among banks, as it is doing in industry.

Rationalisation has progressed much further in France than in England, because of the disastrous effects of the late War. Owing to the destruction both of buildings and machinery to such an extent during that period, the Northern Provinces were obliged to rebuild entirely many of their factories, which they have done on the most approved modern lines. In their turn the banks also have made great progress in organisation.

The use of machines for book-keeping purposes is general, and their introduction by the various banks has brought about a distinct advance on former methods and practice, and one more in keeping with present-day requirements. The process is not complete, but much enterprise has been shown in this new development.

V. THE BANKING SYSTEM OF GERMANY

XXII

Earliest bank established: long continuance; nature of business transacted.—The Bank of Prussia, first bank of issue; its connection with the State.—The Act of 1847, what it decreed. —The Bank's notes made legal tender.—The Bank reconstituted in 1875 as the Reichsbank.—The Bank Act of 1875: its main purpose; some of its provisions.—Administration of the Reichsbank under the Act.—The Bank's operations now governed by Acts of 1924 and 1926.

BANKING in Germany had its rise in the founding of the Hamburg Giro Bank in 1619. This bank was formed on the model of the Bank of Amsterdam, and continued for a period of more than 250 years. It was of the nature of a State bank, and both citizens and local firms of the great maritime port made their payments by drafts drawn on the bank, these drafts being secured by deposits of silver bullion. Metallic money existed only in the form of small coin, chiefly silver, which served for the purpose of retail dealings.

THE FIRST BANK OF ISSUE

The first Bank of Issue in Germany was the Bank of Prussia, founded by Frederick II in 1765 after the pattern of the Bank of England. The bank was originally established as a State institution. In 1846 it ceased operations and went into liquidation, but was afterwards reorganised with the admission of private shareholders.

The Act by which the Bank of Prussia was reconstituted came into effect on 1st January, 1847. The Bank had

then a subscribed capital of 30,000,000 marks, to which the State added considerable sums from time to time, amounting on 1st January, 1856, to over 5,000,000 marks in all. The Government reserved the prerogative of doubling the capital stock of the bank in conjunction with the shareholders. The Reserve Fund, constituted by one-fourth of the profits, was not to exceed 50 per cent. of the capital stock.

It was decreed by the Act of 1847 that the Bank of Prussia should promote the money circulation of the community and utilise capital so as to encourage trade and industry. To this end the bank was empowered to discount bills, to supply credit and loans upon adequate security, to issue notes and drafts, to receive and collect cheques, and to transact generally the business of banking as then understood.

The note issue of the bank was entirely under State supervision. The lowest denomination of its notes equalled 75 marks. The total issue was not to exceed 15,000,000 thalers, equal to 45,000,000 marks, and against the notes in circulation there had to be retained as security one-third in coin or silver bullion, and one-half in discounted bills. The notes were declared legal tender in all payments at public offices in lieu of coin, and circulated freely in every part of Germany, as well as in neighbouring countries.

The Reichsbank

The Bank of Prussia continued as such until 1875, when it was reconstituted by Act of the Reichstag of 14th March of that year as the Reichsbank, or Imperial Bank of Germany. The Reichsbank took over and extended the business of the old bank, as well as its rights and obligations.

The Bank Act of 1875.—The main purpose of the Bank Act of 1875 was to unify the banking system of the German Empire—as it then was—by bringing it under the control of a great central institution, in the management of which the Imperial Government should have a share. This purpose would appear to have succeeded, as the other Banks of Issue in Germany have been reduced from thirty-two in 1875 to four banks at the present time.

The Act of 1875 was very comprehensive, and related to the regulation of note issue; the nature of the business to be transacted by the Reichsbank; the Bank profits and their disposition; the Imperial Government's share in the direction of the bank; the publishing of periodical reports, and the opening of new branches.

As regards administration, it is interesting to note that under this Act the government of the Reichsbank was entrusted to three separate bodies, viz., (1) a governing body termed the Bankkuratorium, consisting of the Imperial Chancellor, as President, and four members, of which one was appointed by the Emperor and three by the Federal Council, (2) a Board of Directors appointed for life by the Imperial Council and called the Imperial Bank Directory, and (3) a Board of Administration elected by the shareholders, consisting of fifteen members.

The immediate management of the bank was entrusted to the last-mentioned body, but on all matters of great importance, such as those pertaining to the policy of the Bank, its relation to the Government and to other institutions, the decisions of the other two Committees were necessary, that of the Bankkuratorium being final.

The Act of 1875 continued operative until the outbreak of the War in 1914, when certain changes were made in its provisions affecting note issues.

The Act of 1924.—The operations of the Reichsbank are now governed by the Act of 30th August, 1924 (as amended by that of 1926), which laid down the lines of its reconstruction after the post-War inflation, and gave it the privilege of note issue in Germany for a period of fifty years.

XXIII

THE REICHSBANK

Capital, original and present amounts.—Government entrusted to three separate bodies: (1) General Council, its composition; (2) Board of Directors, their number and nature of duties; (3) Advisory Committee, its membership and by whom elected; without voting power.—The Bank's services to the Government; their nature and extent.—Division of profits; how appropriated. —Note Circulation.—Bank's issue, exclusively legal tender.— Note Commissioner and his duties.—Statutory reserve necessary; Tax payable on excess note issue; special reserve against deposits.—Relations of Reichsbank with other banks: their representation on Advisory Committee.—The Bank's relations with its customers: discounting of bills; transfer payments, etc.; Reichsbank's Annual Statement.

THE capital of the Reichsbank was originally fixed at M. 120,000,000, divided into 40,000 shares of M. 3000 each. This capital was increased by the Bank Act of 1899 to M. 180,000,000, and by the Act of 1924 the authorised capital was fixed at R.M. 400,000,000 in shares of 100 R.M. each. Of this capital, R.M. 122,788,100 have been issued and paid up. During the past year (1930) the capital was increased from the latter figure to R.M. 150,000,000, equal in sterling to £7,356,547.

Government and Administration

In virtue of its new constitution, the Reichsbank is now independent of State control. Its government is entrusted to three separate bodies, viz.:

(1) *The General Council.*—Owing to the peculiar circumstances in which the reconstruction took place—

particularly the provision of a foreign issue of capital, if required—and the part which the bank was called upon to play in the execution of the Experts' Plans, it became necessary to incorporate foreign representation on its governing body. It was therefore arranged under the Dawes Plan that a General Council should be created, and that this Council should be composed of fourteen members, viz., the Reichsbank President as President of the Council, six other German members, and seven foreign members. By the operation of the Young Plan, the number of members of the General Council has been reduced from fourteen to ten, who will consist exclusively of German citizens. The members of the Council hold office for three years. The Foreign Commissioner appointed under the Dawes Scheme to control the note issue is replaced in accordance with the Young Plan by a German national, it being the intention of the Young Committee that all foreign control over German finances should be abolished. The Note Commissioner is appointed for a period of four years.

The General Council meets once a month to receive reports from the President and the Note Issue Commissioner.

(2) *Board of Directors.*—The Board includes fourteen members, viz., President—elected by the General Council. He holds office for four years. His election must be confirmed by the President of the Reich, otherwise a fresh election must take place. Vice-President and twelve Directors—nominated by the Reichsbank President and elected by the General Council for a period of twelve years. The Directors exercise the main governing powers, and direct the Exchange, Advance, and Discount Policy of the bank.

(3) *Advisory Committee.*—An Advisory Committee of

twenty-one members elected by the shareholders. This Committee is drawn from German industry, commerce, agriculture, etc., and is intended to represent every side of the economic life of the country. Its deputations to the Board of Directors may be invited to attend the meetings of the latter body when occasion demands, but they have, of course, no voting power beyond that which they exercise as shareholders at General Meetings.

The Bank's Services to the Government

The Reichsbank is banker to the German Government and is entrusted with its general banking business. It undertakes all receipts and payments and internal remittances on behalf of the State, and by means of the bank's transfer system, the collection of the revenue throughout the Reich is greatly facilitated. The Treasury balances form a considerable part of the bank's total deposits. The temporary needs of the Government are as a rule met by the bank against Treasury bills which are re-discounted as occasion may require in the market.

The advances of the Reichsbank to the State may not exceed M. 100,000,000, and must not run for more than three months at a time. It is a rule that at the end of the bank's financial year the Reich must not be indebted to it in any way. Advances for short periods may be made to the Postal and Railway Services to a maximum combined amount of M. 200,000,000.

A special account is kept with the Reichsbank on account of Reparation receipts and payments. The Bank is granted exemption from taxation in respect of both income tax and corporation tax.

Division of Profits

In return for the privileges conferred on it by the State, the latter participates largely in the bank's profits. The net annual profits of the Reichsbank are divided as follows :—

Twenty per cent. is appropriated to Legal Reserve Fund, until same attains an amount equal to 12 per cent. of the average note circulation for the previous six months. Eight per cent. is paid as a cumulative dividend to the shareholders.

After providing for the aforementioned allocations, the first fifty million marks of the remaining profit are divided equally between the shareholders and the State. From the next fifty millions (or smaller amount) of profit, three-quarters accrue to the State and one-quarter to the shareholders. From the remaining balance, if any, nine-tenths go to the State and one-tenth to the shareholders.

The amounts due to the shareholders, in addition to the statutory dividend, may either be paid in the form of additional dividend, or be carried to a special Reserve Fund for the purpose of ensuring payment of future dividends.

Note Circulation

With the exception of the four Federal State banks—afterwards referred to—the Reichsbank has the exclusive right of note issue in Germany. While the issues of the four State banks are authorised, that of the Reichsbank only is legal tender.

During the War period, the Reichsbank notes were supplemented by a specially authorised issue of Imperial Treasury Notes which were made full legal tender, but

were limited to an amount not exceeding 360 million marks. The Reichsbank's legal obligation to convert its notes into gold was at the same time suspended.

The issue, withdrawal, and cancellation of Reichsbank notes are controlled by a Note Commissioner appointed by the General Council. The Commissioner is empowered to satisfy himself at all times of the correctness of the reserves held against the note issue, and may attend the meetings of the Board of Directors. The daily returns of notes in circulation, and the cover provided for them, must be brought to him for checking purposes. Every note put into circulation must bear a special stamp denoting that it has been issued with the authority of the Note Commissioner.

Bank notes are of various denominations from R.M. 10 upwards. Notes for less than R.M. 10 may only be issued with the consent of the Government for meeting any temporary demand for a smaller paper currency. The notes of the Reichsbank have a large circulation, and, in addition to German gold coin, are legal tender for an unlimited amount.

The bank must keep a reserve of gold and foreign currency amounting to at least 40 per cent. of its note issue. Of this cover, three-fourths (*i.e.*, 30 per cent. of the note issue) must be in gold. The gold reserve may either be in the vaults of the bank, or be held at its disposal in a central Bank of Issue abroad. The reserve in foreign currency may include both notes and foreign bills having not more than fourteen days to run, and payable at a first-class bank in a large money market centre. The remaining 60 per cent. of the note issue must be covered by discounted bills.

In exceptional circumstances the cover for the note issue may be allowed to fall below 40 per cent. Before

this can take place, however, the sanction of the General Council must first be obtained, and their decision must be unanimous. If the cover remains below the statutory percentage (40 per cent.) for more than a week, the following tax must be paid to the State on the difference between the actual cover and the statutory figure.

	Tax Payable Per Annum.
If the cover be between 37 and 40 per cent.	3 per cent.
,, ,, ,, 35 ,, 37 ,, ...	5 ,,
,, ,, ,, 33⅓ ,, 35 ,, ...	8 ,,

If the cover be lower than 33⅓ per cent., the tax is 8 per cent. per annum, plus 1 per cent. for every 1 per cent. the cover falls below 33⅓ per cent.

The Reichsbank official discount rate must be at least 5 per cent. when the cover for the note issue falls below 40 per cent. for a calendar week or more, and the rate must be increased by a third of the tax on the excess issue.

Example :

Cover for Note Issue	Tax	Discount Rate		
		Minimum	Plus	New Minimum Rate
37 per cent.	3 per cent.	5 per cent.	3/3rds	6 per cent.
35 ,,	5 ,,	5 ,,	5/3rds	6⅔ ,,
33⅓ ,,	8 ,,	5 ,,	8/3rds	7⅔ ,,

Reichsbank notes are payable at the head office of the bank in Berlin on presentation, and at its branches provided the cash held at the latter permits of payment being made. Payment may be made at the bank's option either in German gold coin or gold bullion, or in foreign currency (devisen).

Liquid Funds

In addition to the cover required against note issues as stated, the Reichsbank must maintain a special reserve amounting to 40 per cent. of its deposit liabilities (excluding amount at credit of Reparations Commission). This reserve may be in cash, money at call, cheques on other banks or commercial bills having not more than thirty days to run.

Relations of the Reichsbank with other Banks

The Advisory Committee representing the shareholders is composed in part of representatives of the leading banks in Germany, and forms thereby a connecting link between them and the Reichsbank. This Advisory Committee has only a consultative voice, but its advice is sought on different questions, such as raising or lowering the Bank Rate, selecting the securities admitted as cover for advances, etc.

The Reichsbank adopts a uniform rate at all its offices, which is rarely departed from as a minimum. Consequently, powerful institutions such as the Deutsche Bank and Disconto-Gesellschaft, the Dresdner Bank, and others obtain the finest paper, and a large proportion of the Reichsbank's bills come for re-discount from other banks.

The Joint Stock banks in Germany also compete with the Reichsbank in the matter of deposits, and are in a position to do so successfully, owing to the fact that they allow interest. Prior to 1879 the Reichsbank also allowed interest on money deposited, but since that date has discontinued the practice.

The Reichsbank permits other German banks to share with it the facilities afforded by the Clearing Houses it

has established in connection with its head office and principal branches, an arrangement which has proved to be both economical and advantageous.

THE BANK'S RELATIONS WITH ITS CUSTOMERS, ETC.

The Reichsbank conducts its ordinary banking business on somewhat similar lines to the Bank of England and other central banks. It discounts bills and makes advances against securities; it receives money on deposit and accepts securities for safe custody.

Through its wide ramifications, and a branch system with over 440 offices, the Reichsbank brings the advantages it is able to offer within the reach of all classes in the State.

The discounting of bills is a predominant feature of the bank's business. Although a considerable number of those discounted every year are for sums below 100 marks, the small discounts are not allowed to exceed 33 per cent. of the bill portfolio. The currency of the bills does not exceed three months, and as a rule three names, but in no case less than two, are required to each bill. The bank always holds a large assortment of foreign bills, a considerable proportion of which are drawn on London.

The current account business of the Reichsbank has greatly increased during recent years. This is not due to the growing use of cheques as in England, but rather to the lack of this facility. Owing to the extensive use of notes and coin in effecting payments, a system of transfers was devised, not only to economise the use of specie, but also to facilitate payments. By this method, payments may be made in any town throughout Germany where there is a branch of the Reichsbank to the credit of the payee at any other office, the amount being credited

to the proper account by the bank, on the following day, free of charge.

The Reichsbank performs various services for its customers in addition to those mentioned, such as the buying and selling of stocks, the collection of bills, payments, etc.

In addition to its Weekly Return, the Reichsbank issues at the close of each year an Annual Statement of its assets and liabilities. Annexed hereto is a copy of the Annual Balance Sheet as at 31st December, 1930.

The Reichsbank's notes in circulation, as shown in this Return, viz., R.M. 4779 millions odd, represented 77 per cent. of the bank's total liabilities at the date of same. They were covered by the cash in hand, consisting of gold and silver coin, and bullion, etc., amounting to R.M. 2365 millions, to the extent of 49 per cent., which was in excess of the legal requirement, viz., 40 per cent. The total discounts, amounting to R.M. 2572 millions, represented 41 per cent. of the total assets, while other advances described as such, viz., R.M. 618½ millions, were only 10 per cent. of the total.

LIABILITIES AND ASSETS TO THE REICHSBANK, 31st DECEMBER, 1930

	Liabilities				*Assets*		
1930 Dec. 31.	Capital (Paid)	R.M.	150,000,000	1930 Dec. 31.	Cash in hand	R.M.	2,364,965,150
	General Reserve	,,	57,920,334		Correspondents	,,	471,100,420
	Special Reserves	,,	279,399,538		Investments	,,	102,972,369
	Notes in Circulation	,,	4,779,129,230		Discounts	,,	2,571,974,071
	Deposits and other Liabilities	,,	893,079,878		Advances, etc.	,,	618,516,970
					Premises	,,	30,000,000
	Total Liabilities	R.M.	6,159,528,980		Total Assets	R.M.	6,159,528,980
	Equal in Sterling to		£302,085,776		Equal in Sterling to		£302,085,776

XXIV

STATE BANKS OF ISSUE, ETC.

The State Banks and the Act of 1875: banks with issue reduced to four; their respective names and authorised issues; further restrictions of law of 1899.—Joint Stock Banking: causes contributing to its rise and development.—The first of the Joint Stock banks to be formed.—The leading institutions.—The Deutsche Bank und Disconto-Gesellschaft: a combination of two large banks; large resources of combine; numerous branches; foreign connections.—The Dresdner Bank: when founded; its policy of expansion; present strong position.—The Darmstädter and National bank, a combination of two banks: its affiliation with other banks.—The Commerz und Privat Bank, its two head offices and branches; its distinctive features.—The Berliner Handels-Gesellschaft, has no branch system: its progress since re-construction.—The Joint Stock banks, and business transacted; their participation in industry.

In addition to the Reichsbank, which occupies the central position in the German banking system, the other banks in the Reich may be divided into the following classes, namely,

1. The Banks of Issue of the Federal States.
2. The Joint Stock Banks.
3. The Private Banks.
4. The Co-operative Banks.
5. The Savings Banks.

The Banks (of Issue) of the Federal States

At the date of the passing of the Act of 1875, there were thirty-two of these banks doing business, all of them being Banks of Issue and established by State Charter. The State banks, as well as the Reichsbank, came under

the requirements of the 1875 Act. In the event of any bank declining to accept the provisions of the Act, its activity was to be limited to the State of its origin.

Almost immediately after the passing of this Act, thirteen of the thirty-two banks relinquished their right of issue, followed at subsequent periods by fifteen others. The lapsed issues of those banks, in accordance with the provisions of the Act, fell to the Reichsbank. The total authorised issue of the remaining four banks is M. 194,000,000. These banks, and their respective authorised issues, are as follows, namely,

		Authorised Circulation.
State Bank of Bavaria	M.	70,000,000
State Bank of Saxony	,,	70,000,000
State Bank of Würtemberg	,,	27,000,000
State Bank of Baden	,,	27,000,000
Total	M.	194,000,000

The banks which voluntarily gave up their right of issue continued thereafter as banks of deposit and discount.

The law of 1899 imposed additional restrictions on the local Banks of Issue, binding them to the Reichsbank's official rate when at 4 per cent. or higher, and allowing them only $\frac{1}{4}$ of 1 per cent. latitude at all other times.

The right of note issue granted to the four banks above mentioned does not carry the right of legal tender, which belongs exclusively to the Reichsbank. The restrictions imposed upon them in regard to note issue and rates of discount may have the effect, sooner or later, of inducing them to renounce their note issue rights like the banks of the other Federal States which did so, thereby leaving the Reichsbank with the exclusive right of issue.

The Joint Stock Banks

It was not until about the middle of last century that Joint Stock banking began to be developed in Germany. With the great increase of population dating from that period, and the growth of industrialism corresponding therewith, the opportunity came for the establishment of Joint Stock banks. The Landschaften and similar institutions, together with private banks, had previously supplied needed credit to the agricultural interest. These banks, however, owing to their constitution and limited resources, were not in a position to supply the ever growing demands for credit of industrialists and manufacturers in the same way as Joint Stock banks with larger capital could do. Consequently, every encouragement was given to the establishment of the latter type of institution.

The first of the Joint Stock banks to be formed was the A. Schaaffhausen'scher Bankverein, Cologne, in 1848, which succeeded the private banking house of A. Schaaffhausen in the same town. The bank remained an independent institution until it became a subsidiary of the Disconto-Gesellschaft group in 1914.

Joint Stock banks continued to be formed throughout the country both in Berlin and provincial towns, until there are to-day a number of large banks each with its branch system. Among these banks the following are recognised as the principal institutions, namely, the Deutsche Bank und Disconto-Gesellschaft; the Dresdner Bank; the Darmstädter and National Bank; Commerz- und Privat-Bank; Berliner Handels-Gesellschaft.

The first-mentioned bank is a combination of the Deutsche Bank, founded in 1870—for many years the principal Joint Stock bank in Germany next to the

Reichsbank—with the Direction der Disconto-Gesellschaft, established in 1851, which was the second largest bank. The union of these two large banks took place at the end of September 1929, and is the most striking example of centralisation in German banking policy since the close of the War.

The Deutsche Bank, prior to the union, had a capital of R.M. 150,000,000 and a reserve of R.M. 77,500,000, while the Disconto-Gesellschaft had a capital of R.M. 135,000,000, and reserves of R.M. 66,500,000. The Deutsche Bank, in addition to its head office in Berlin, had 182 branches and 104 sub-branches (Depositenkassen), while the Disconto-Gesellschaft had fifty-nine branches and sixty-two sub-branches. After union, the total deposits of the two banks were R.M. 4,221,461,214, equal in sterling to £215,450,000.

During recent years the Deutsche Bank absorbed a number of provincial and local banks in Germany, thereby strengthening its position. In addition to its German branches, the bank has branches established in a number of foreign cities, including Amsterdam, Constantinople, and Danzig. Its London branch has been closed since the War.

Among foreign banking concerns in which the Deutsche Bank and Disconto-Gesellschaft have an interest are the following, viz., the Deutsche Asiatische Bank, the La Plata Bank, the German Brazilian Bank, and the Banco de Chile y Alemania.

The Dresdner Bank was founded at Dresden in Saxony in 1872, and speedily attained to the position of a national institution. Its branch at Berlin was opened in 1881 and afterwards became the head office of the bank. Like the other leading banks of Germany, the Dresdner Bank adopted a policy of expansion and

absorbed several local banks. It also has participation in several foreign institutions, amongst them being the German South-American Bank, and the Deutsche Orientbank.

The Dresdner Bank has for a number of years given strong support to the development of Co-operative Credit institutions in Germany, and has organised special departments in its Berlin and Frankfurt offices for this class of business.

The bank has a branch system embracing over 100 offices in all. It also had a branch in London, which like that of the Deutsche Bank has been closed since 1914. Its last balance-sheet showed a paid-up capital of R.M. 100,000,000, a Reserve Fund of R.M. 34,000,000, and deposits of R.M. 2,275,837,000 (£111,615,350 sterling).

The Darmstädter and National Bank is a combination of two banks, namely, the Bank für Handel und Industrie, established in Darmstädt in 1853, with the National Bank für Deutschland. After amalgamation in 1922, the name, as at present, Darmstädter and National Bank was adopted. The head office of the bank has been transferred to Berlin, and it has branches established in every important town in Germany, the total number being over 180.

The bank has been from the first closely identified with commerce and industry, and has materially assisted in the flotation of industrial companies and in granting the necessary business credit from time to time required by them. Prior to the War, the bank took an active part in the issue of Government and Corporation loans.

The Darmstädter and National Bank is affiliated with a number of foreign banks, amongst these being the Danziger Bank für Handel und Gewerbe, and Deutsche

Orientbank, the Mercur Bank of Vienna and the Internationale Bank te Amsterdam.

The bank has at present a paid-up capital of R.M. 60,000,000, a Reserve Fund of R.M. 60,000,000, and total deposits R.M. 2,383,555,055 (£116,898,237 sterling).*

The Commerz-und Privat-Bank was formed in 1920 by the amalgamation of the Commerz-und Disconto Bank, established in 1870, with the Mitteldeutsche Privat-Bank founded in 1856. The bank has head offices both at Berlin and Hamburg, and branches throughout Germany. It specialises in financing German foreign trade, and has important connections in a number of foreign cities. The bank had an interest in what was formerly the London and Hanseatic Bank, now known as the London Merchant Bank, which acts as the London agent of the Commerz-und Privat-Bank.

During recent years the bank has absorbed, or become affiliated with, several other banking firms, the latest merger, in 1929, being that of the important establishment of the Mitteldeutsche Credit Bank of Berlin and Frankfurt, with resources of R.M. 210 millions and several branch offices.

The Commerz-und Privat-Bank has a paid-up capital of R.M. 75,000,000, a Reserve Fund of R.M. 40,500,000, and total deposits of R.M. 1,585,693,881. It has a total number of branches in Germany of about 250.

The Berliner Handels-Gesellschaft, which was founded in 1856, is a single office institution, and has no branches. Its business is centred in Berlin. The bank has from its commencement been closely identified with industry, in which it largely participates, and has much of its funds

* An amalgamation took place dating from 1st January, 1932, between the Darmstädter and National Bank, and the Dresdner Bank by an exchange of shares.

invested. Owing to this connection, the bank suffered severe losses during its earlier years, as the result of which it had to undergo a reconstruction of its capital in 1882. Since then it has made steady progress, and its business has shown continued development. The bank has a paid-up capital of R.M. 28,000,000, and reserves of R.M. 15,000,000, with current account balances of R.M. 436,644,840.

All these Joint Stock banks do a considerable business as banks of deposit and discount, and also transact all kinds of ordinary banking operations. Current accounts are opened, moneys are remitted to any parts where desired, securities and valuables are received for safe custody, and foreign exchange transactions are engaged in. These banks also act as brokers for their customers, and attend to the buying and selling of stock on their behalf. They do so to a much greater extent than obtains among English banks owing to the lack of intermediaries such as brokers. For this service they are recouped by earning full commission, which constitutes an important source of income.

In addition to the Joint Stock banks mentioned, there are many others doing business in Berlin, some of which are branches or agencies of foreign banks. There are also—as previously stated—a number of well-known Joint Stock banks established in provincial cities, with branches throughout the Reich.

In Germany the banks accept deposits repayable within seven days, or a specified term of three months or longer. The larger proportion of the lodgments being time, or fixed deposits, the banks are enabled not only to lend to, but invest in, industrial concerns to a greater extent than they could otherwise do. In this way they become in many instances direct participants in industry,

which has always been a feature of German banking. Such participation frequently enables a shareholding bank, equally with the private shareholders, to nominate or appoint Directors to the Board of the industrial concern in which it has a special interest. At the same time, because of this connection, a bank obtains as a rule the whole of an industrial company's banking business at remunerative rates, and is in a position to watch its operations from the inside as it were and safeguard the bank's interests.

XXV

PRIVATE BANKS

Private banking business: its comprehensive nature.—Some early established banks.—Competition of the Joint Stock banks: effects of same.—Co-operative banks: the Volksbanken and the Landschaften groups.—The Schulze-Delitzsch banks; their origin and purpose.—The Raiffeisen banks: when and by whom founded; designed to assist Agriculture; features of Co-operative banking.—The Landschaften, their Long Term Credits to farmers: form of advance; how secured.—Mortgage banking: the Stadtschaften, etc.; their loans against mortgage.—Institutions which may issue bonds.—Law governing mortgage banking; its provisions.—The Realty Register, a feature of the Mortgage Loan System.—Savings Banks: when first established; miscellaneous business transacted.—Municipal Savings banks; their administration; affiliation with a central organisation.

Besides the Joint Stock institutions, there are in Germany many private banking firms, some of which do a considerable amount of business, although detailed statistics regarding them do not appear to be published.

The German idea of what constitutes a private banking business is more comprehensive than what is generally understood by the term. To quote the words of Paul Quittner in this connection, "The German small banking business embraces activities which in Anglo-Saxon countries would be called by other names, such as brokers, bond salesmen, etc." *

A number of private banks carried on the business of banking in its simpler forms long before the era of Joint Stock enterprise. Amongst the first of the German

* "Foreign Banking Systems," p. 709.

private banks was that of Johann Mertens in Frankfurt, founded as early as 1605, and the house of Schickler in Berlin, established in 1712, a century later.

With the formation of Joint Stock banks after the middle of last century, the decline of private banking may be considered to have begun. Owing to the competition which was experienced by many of the private institutions with their stronger rivals, possessed in each case of larger resources, a number of them either failed or ceased business. Others, in not a few instances, became absorbed by, or sought amalgamation with, one or other of the Joint Stock banks.

Co-operative Banks

Of the Co-operative banks of Germany, there are two distinct groups, namely, the Volksbanken and the Landschaften. The former group includes the Schulze-Delitzsch and the Raiffeisen type of institution, which, though co-operative and termed in both cases "People's Banks," have their distinct characteristics.

The Schulze-Delitzsch banks, as the name implies, were originated by Dr. Schulze of Delitzsch about the middle of last century. They were designed to assist small traders, shop-keepers and others who were unable to obtain from the ordinary banks the accommodation they required.

The Raiffeisen banks were first established by the economist F. W. Raiffeisen in 1864. At the end of 1865 there were only three of these banks doing business, but twenty years later their number had increased to 245. The Raiffeisen banks were chiefly intended to provide credit facilities for those engaged in agriculture.

Both types of banks—the Schulze-Delitzsch and the Raiffeisen—as has been stated, are formed on the

co-operative principle. No member can hold more than one share, and loans which are usually of small amount are only made to members. Deposits are received not only from members, but from outsiders as well. The loan fund is formed from the deposits and savings received, along with the payments from members' shares. A shareholder or member can obtain a loan up to the amount of his share, but if beyond that amount security must be deposited, or a surety provided.

The Landschaften

The Landschaften or Land banks were originally formed in Prussia in the eighteenth century, immediately after the close of the Seven Years' War. Like the Schulze and Raiffeisen banks, the Landschaften are co-operative, both in their constitution and mode of operation. Some of these Land banks received temporary loans from the State at their formation, but in the majority of cases they have depended for the raising of their capital on their members, or on public support.

The purpose of the Landschaften is to make loans to landowners and farmers for the cultivation of their land, and for necessary outlays in connection therewith. Such loans are made at lower rates than are usually charged by the ordinary banks or by money-lenders. The advances are of the nature of long-term credits, and may extend over a fixed number of years, the borrower having always the option of repaying his loan at any time he chooses. Loans are made only to the members or society constituting the bank, on the security of a mortgage in each case. The advance must not exceed two-thirds of the ascertained value of the mortgaged property. In some cases the loan is made by the bank in cash, but more frequently by bond or debenture,

which is negotiable and convertible into money like any other marketable security.

The Landschaft borrows money on debentures, the interest on which is at the same rate as that charged on its loans. The debentures are redeemable by drawings on a sinking fund, formed principally by instalment payments of loans made to its members. Since the borrower receives his loan at the same rate of interest as the Landschaft pays for it—that is to say to the debenture holder—he is made to pay a trifling contribution towards management expenses and Reserve Funds.

While banks of the Raiffeisen and Landschaften type are both conducted on the co-operative principle, and not as Joint Stock Companies, the former class is more suited to the peasant proprietor and smallholder than the latter. This applies not only to the smallness of the loan, but also to the nature of the security, which is personal. The minimum loan granted by the Landschaften is about £40, and is usually for much larger sums.

Co-operative banks have been of great service in promoting the prosperity of the districts in which their operations are carried on. Such banks are not confined to Germany; they are established in Austria, Italy, and other Continental countries with equally successful results.

Mortgage Banking

Although the Landschaften represent the oldest type of mortgage bank, there have been later developments. Amongst these are the Stadtschaften, or City Mortgage banks, established in Berlin and in a number of provincial towns, which grant loans on the security of mortgage on improved real estate, or of land in process

of development. There are also a number of private mortgage banks, as well as Savings Banks and Insurance Companies, which lend against mortgage. While there does not appear to be any restriction to a bank granting loans on mortgage security, it is only authorised institutions such as the Landschaften which are given the privilege of issuing bonds.

The law at present governing the system of mortgage banking in Germany came into force on 1st January, 1900. It provided that the business operations of the mortgage banks should be under the supervision of the State, although the latter is not responsible for their conduct. The same Act defined the business of mortgage banking to consist of granting mortgage loans on land, combined with the issue of bonds based on the acquired mortgages. The mortgage bonds outstanding must at all times be covered by mortgages to an equal value, and in the event of temporary shortage of cover, the deficiency must be met by Government security to the extent of same. Mortgage banks as such may not receive deposits beyond 50 per cent. of their paid-up capital, and have a right to postpone repayment of their bonds for a maximum period of ten years. The mortgage bond circulation may not exceed twenty times the paid-up capital and Reserve Funds of the issuing bank.

A feature of the Mortgage Loan System, which also may be regarded as the basis of its operations, is the Realty Register (Grundbuch) which is established in each locality. These Registers contain all necessary particulars regarding the ownership of land property within a prescribed area, and in addition the debt burdens, if any, relating to such property. Any person who has a proper interest may obtain permission to examine a Register.

One of the oldest and most reputable of the German Mortgage banks is the Bayerische Hypotheken-und Wechselbank, established in 1835, which, in addition to its mortgage operations, carries on a general banking business.

Sparkassen, or Savings Banks

Savings Banks have been established in Germany for many years, the first of their number having been opened at Hamburg in 1778. The scope of these banks is much wider than the Trustee Savings banks of Great Britain, and includes business which is usually regarded as belonging to the ordinary Joint Stock banks. Savings Banks in Germany are given the privilege of keeping cheque or drawing accounts for their customers, in addition to the ordinary deposit account. They have also an organised cheque and transfer Clearing System, distinct from that of the Joint Stock banks. Giro, or transfer payments, are made, Stock Exchange transactions are carried through, and they finance industry in various ways when required.

Municipal Savings Banks are established in most of the towns, having been formed in each case by the local or municipal authorities, who are responsible for the administration of the bank, and guarantee its obligations. Deposits are received at rates usually higher than those granted by the Joint Stock banks, and loans are made at varying periods, mostly for municipal purposes. While maintaining their separate identity, the Municipal Savings Banks are members of, or affiliated with, a strong organisation known as the German Savings Bank Union (Deutscher Sparkassen und Giroverband). The object of the latter is to promote the interests of the Member Savings Banks, to link up transfer operations,

and to improve the Savings and Credit Systems of the various municipalities.

At the height of the inflation period some of the Savings Banks issued their own notes. Owing to shortage of currency of any kind, these notes actually stood at a premium of 2 per cent. for a time. When stabilisation was brought about in 1923, they were withdrawn from circulation.

Prior to the War it was estimated that there were in Germany over 3000 Savings Banks exclusive of branches, with deposits of 17,000 million marks, or £850 millions sterling. The number of these banks is now given as under 3000, having control of funds amounting to fifteen milliard marks.

XXVI

POST-WAR DEVELOPMENTS

Currency Stabilisation: measures devised towards same; Reichstag ordinance of 15th October, 1923; its provisions; the Rentenbank, its currency and how secured; factors in securing stabilisation; immediate consequences of same; the Reichsmark, the new unit of account.—Growth of the saving habit; confidence the basic principle; the desire to save and to deposit general.—Bank Amalgamations: amalgamations and mergers, a post-war feature; instances cited; contributory causes.—Centralisation of banking; Berlin its chief centre; aspects of this policy, reduction in number of provincial branches.—Foreign banking; banks having affiliations and branches in foreign countries; German Bank Issues; Long Term Issues of banks on their own Account; object of same.—Monthly Balance Sheets: published Statements of principal Joint Stock banks now issued monthly; periodic returns to be made, in addition, to the Reichsbank.—Bank Cartel System: its nature and scope.—Development of a bill market in Berlin.—Government initiative. —The Reichsbank and the other banks' co-operation.

Currency Stabilisation

The recovery of the mark and its stabilisation on a gold basis have had an important influence on post-War banking and finance in Germany.

Prior to 1914, the par exchange of the mark was M. 20·43 to the pound sterling, and M. 4·2 to the dollar, and its exchange value was approximate to these rates. During the War period and since, the mark in common with other Continental currencies greatly depreciated in value. The lowest point was reached in November 1923, when the paper mark was discredited as a medium of exchange. It was then that a new form of currency, termed the Rentenmark, was devised.

By ordinance of the Reichstag, which was promulgated on 15th October, 1923, the Rentenbank was formed to provide a stable internal currency. The Reichsbank currency remained the medium of international exchange. The Rentenmark had no quotation on the foreign Bourses, and its function was solely to provide a medium of stable payment in the Reich. In accordance with the provisions of the ordinance referred to, the Rentenbank had a capital of 3200 millions of Rentenmarks, "subscribed in equal shares by agriculture and industry," and secured by mortgages bearing interest at 6 per cent. On the basis of these mortgages, the Rentenbank was authorised to issue annuity bonds bearing interest at 5 per cent. The latter served as cover for the Rentenbank note issue which was limited to 3200 millions of Rentenmarks, an amount equal to the capital.

The Rentenbank was authorised to grant the following credits, viz.,

300 millions Rentenmarks to the Government of the Reich, free of interest, for the purpose of liquidating its floating debt, consisting of discounted Treasury bills.

900 millions Rentenmarks also to the Government, to be availed of during the subsequent two years, this additional credit, however, bearing interest at 6 per cent.

1200 millions Rentenmarks to the Reichsbank, and the other four note-issuing banks in certain proportions, for the purpose of supplying credit to private business enterprise.

At the date of stabilisation—20th November, 1923—the exchange value of the mark stood at one-billionth

of its pre-War value, *i.e.*, the pound sterling equalled 20 billion paper marks, and the U.S. dollar 4,200,000 millions of paper marks. The Reichstag ordinance fixed internal exchanges on the basis of one Rentenmark (or pre-War gold mark) for one billion paper marks.

The success of the Rentenmark as a factor in stabilisation—for such it proved to be—was due in great measure to a strictly limited issue, which from the first never exceeded 2000 millions Rentenmarks, and which was based on a security which the public believed to be sound. To quote the words of Lord D'Abernon in this connection, "Confidence was created mainly through restriction, assisted by a more or less illusory mortgage—a combination of physical and metaphysical elements which future currency reformers would do well to study." Another factor which contributed to stabilisation was the institution of the Gold Discount Bank, which was formed with the aid of a loan of £5 million from the Bank of England. Through its instrumentality, German currency was linked up to the foreign exchange markets. The Gold Discount Bank was not intended to be a permanent institution, and when the object for which it was formed was attained, it was absorbed by the Reichsbank in January 1925.

The more immediate consequences of stabilisation were the relief of the Reich from its burden of internal floating debt, the balancing of the Reich's Budget, and the conversion of the balance-sheets of the Reichsbank and the other banks to a gold mark basis.

Under the Dawes Scheme, the Rentenbank ceased to have the right of note issue, and has now been reconstructed as a mortgage institute. The Reichsmark took the place of the Rentenmark as the unit of account, and like it has the same gold value as the pre-War mark.

Although the paper mark was discredited, it did not lose all meaning as money. It continued to function on the exchange markets of the world long after the introduction of the Rentenmark, and until such time as the new Reichsmark currency now in use became established.

Growth of the Saving Habit

Despite the losses incurred on the part of many in Germany, more especially of the creditor class, or those to whom money was due, through the "flight of the mark" and the reversion of the currency to a gold basis, it does not appear to have affected to any extent the faith of the people generally in the soundness of their institutions. Neither has the desire to save, nor to invest, been in any way weakened. In this connection, the testimony of Viscount D'Abernon, who was the first British Ambassador to Berlin after the War, is of interest. In his Presidential address to the Royal Statistical Society, London, in November 1926, amongst other things, he then said, "At no time in German history has the desire to save been stronger than it is to-day, at no time has the habit of saving been more widely spread. From all sides, and from all parts of Germany it is reported that the desire to put money by, to invest it in Savings Banks and other deposit-bank institutions, is wider than it was before the War."

Having regard to the great loss of capital incurred during the War years, this development of the saving habit amongst the people must be regarded from the economic standpoint as a valuable asset in their favour.

The banks throughout the country, both Savings and Joint Stock, give every facility for the receiving of

deposits from all classes, even for the smallest sums. The Deutsche Bank recently introduced a form of Savings Certificate for sums as small as 50 and 100 Reichsmarks with the object of increasing their deposits.

Bank Amalgamations

The process of amalgamation and merging of banks has been a marked feature of German banking during recent years. This applies not only to the larger banks, but also to smaller establishments. Some of the large Joint Stock banks have absorbed a number of provincial as well as private banks. Reference has previously been made to the union of the two largest banks, viz., the Deutsche Bank and the Disconto-Gesellschaft, in September 1929, and to the amalgamation of the Darmstädter Bank with the National Bank für Deutschland in 1922. There have been many others, though not equally important. Among the more recent amalgamations has been that of the Stuttgart private bank of Doertenbach and Cie, established for 200 years, with the Deutsche Bank and Disconto-Gesellschaft, also the Brandenburger Bankverein, Brandenburg, with the Dresdner Bank.

Another recent combination in which the Dresdner Bank had a participation was that of two Mecklenburg banks, namely, the Rostocker Bank, Rostock, and the Mecklenburgische Bank, Scheverin, under the new name of the Rostocker Bank.

Resulting chiefly from trade depression, a number of failures among the smaller and medium-sized banks of Germany took place during the past year. This experience will have the effect of strengthening the movement for amalgamation of small banks with the larger institutions.

Centralisation of Banking

Since the close of the War German banking has become increasingly centred in Berlin, where the principal offices of the leading banks are established. Frankfurt-a.-M., which had previously the chief investment market, is considered to rank next to Berlin as a banking centre, but the principal financial houses in Frankfurt, as well as other important cities, are now represented in the capital. This process of centralisation is also extending to other spheres of economic life. Industrial concerns are in a number of cases having their headquarters established in the capital, whence control is exercised over their branches and subsidiaries in other cities.

Another aspect of the centralisation policy, though due partly to economic causes, is the tendency to reduce the number of bank branches in the provinces. It has been stated that the six large Berlin banks have, during the period since stabilisation, closed over 250 of their total number of branches.

Foreign Banking

While the former London offices of German banks have not yet been re-opened, new branches have been opened in other countries. The Deutsche Bank has now branch establishments in Amsterdam, Danzig, Sofia and Constantinople.

The German Overseas Bank, which is affiliated to the Deutsche Bank, has its chief business in South America. The Disconto-Gesellschaft, now amalgamated with the Deutsche Bank, has a controlling interest in the German Asiatic Bank, though all the other large German banks have also an interest.

The Dresdner Bank has a direct interest in the German Orient Bank.

German Bank Issues

A post-War development in German banking has been the issues by some of the principal banks on their own account. Thus in September 1927 the Deutsche Bank made an issue of $25,000,000 five-year notes, the object of which was the redemption of the bank's short-term indebtedness abroad.

Following the lead of the Deutsche Bank, the Commerz- und Privat-Bank also issued in 1927 a twenty million dollar loan for ten years in New York, with the similar purpose of consolidating its short-term liabilities held overseas.

Monthly Balance Sheets

Since 1928, as the result of a joint conference between the Reich Minister of Economics and representatives of the Reichsbank and the other banks, it was agreed that balance-sheets should be published by the principal Joint Stock banks monthly instead of bi-monthly, as previously. A number of changes were at the same time introduced both in the form of these statements and in the particulars they contained, so as to make them more uniform and informative than before. While the publication of these balance-sheets by the banks concerned is voluntary in principle, compliance with the agreement is understood to be a condition for the admission of new shares by any of their number to quotation on the bourses.

In addition to these Monthly Statements, the banks make periodic Returns to the Reichsbank showing the extent to which—of the total number—their debtors

and creditors are of foreign nationality, with the respective amounts pertaining to each class. While the figures of each bank will not be published separately, the Reichsbank may publish the collective amounts.

Bank Cartel

The Cartel System is strictly observed among the Joint Stock banks of Germany. Because of this combined agreement, one bank is precluded from offering to the public better terms as regards rates of interest, commission and charges than another bank doing business of the same nature.

The Savings Banks and private banks, not being in this combination, are at liberty to fix their own rates and charges, and are at times able to compete successfully with the other banks for certain kinds of business.

Establishment of a Bill Market

The first steps towards the development of a bill market in Berlin were taken by the Government towards the end of 1929, when an issue was made of Treasury bills to the extent of 40 million Reichsmarks. Owing to the limited scope of the bill market, the Reichsbank has been the only regular buyer of bills. Both the Joint Stock banks and the private banking establishments grant acceptance credits, though to a much less extent than in pre-War times. This is chiefly due to the fact that German trade has not yet recovered to pre-War level, and also in some measure to the loss of sterling acceptance credits, owing to the closing of the London branches of their banks.

VI. THE BANKING SYSTEM OF THE UNITED STATES OF AMERICA

XXVII

Its history embracing three periods: (1) free banking era; (2) that of national banking; (3) banking under F.R. System.—Rise and development of banking.—Resort to system of barter: cause for same.—The Land banks, nature of their issue; depreciation of the paper currency.—State banks: the object in view of their founders.—Two classes of State bank: how differentiated; characteristics of early U.S. banking.—First Joint Stock bank to be formed, known as "First Bank"; purpose of its formation; its monopoly; branch system; its Charter not renewed; reasons for same; forced liquidation.—Increase of local banks; the place they filled; failures in their number; demand for a stable institution.—Second Bank of the United States; its Charter and monopoly; its temporary success; political opposition encountered; consequences of same; Charter not renewed by Government.—Bank's continuance temporarily under new name, and State Charter.—Features of the Free Banking Period.—Resort to use of "optional clause" in notes; fractional notes.—The Suffolk System; The Safety Fund System; the principle underlying each.

THE history of banking in the United States of America may be divided into three separate periods. The first of these, the free banking era, dates from near the close of the seventeenth century until the passing of the National Bank Act in 1863; the second, that of National banking, from the latter date until 1913; and the third period, which relates to banking under the Federal Reserve System, from 1913 to the present time.

RISE AND DEVELOPMENT OF BANKING

Prior to the establishment of banks, a system of barter was in vogue amongst the early colonists, and skins of animals often served as money for lack of a better

medium of exchange. Although silver freely circulated in some parts of the country, elsewhere in the States there was often a scarcity. It not infrequently happened in those parts where silver was more plentiful that coins were taken and shipped in order to meet an adverse balance of trade.

The Land Banks

The form of paper currency originally in use was termed "Bills of Credit" and served as bank notes. They were issued by the Land banks, the first of the financial institutions to be formed. These banks owed their formation to the fact that the early settlers had no capital other than land, and were in need of money of some sort to serve their purpose. The bills or notes which were issued supplied this want.

Holders of stock or shares in the Land banks pledged their land in security of the notes. It was often the case, however, that the notes were issued in excess, and note-holders experienced difficulty in obtaining payment in specie. As a consequence, the paper currency in use depreciated in value.

The first Land bank of which there is any record was the First Chartered Bank of Massachusetts, founded by John Blackwell and others in 1686. It was authorised to issue notes and make loans on the security of land and imperishable merchandise.

A more ambitious venture was the Land Bank of 1741, having a nominal capital of £150,000 lawful money. It appears to have had a rather chequered course during its twenty years' continuance. Its surviving stockholders and their heirs were subjected to repeated demands from the noteholders, which they were said to have evaded as best they could.

STATE BANKS

Following on the Land banks, the next development in American banking was the formation of State banks. The latter were at first founded with the intention that there should be only one bank for each State, to be recognised as the Bank of the State. Among the first of these banks to be formed was the Bank of the State of Pennsylvania, which began operations in 1780, and had four branches. Another State bank established a decade later was the Bank of Maryland, followed by the Bank of the State of New York, which obtained its first Charter in 1791.

In process of time each State of the Union had its own bank similar to those named. There being no restriction, other banks began to be formed in most of the States, which, although having no connection with the Bank of the State, took to themselves the title of State bank. There were thus two classes of State bank, one of which consisted in the type of bank in whose stock or capital the State in which it was established, and whose name it adopted, participated. The other class consisted of those whose capital was wholly subscribed by the public, and in many cases were simply private partnerships.

The banks included under the former class enjoyed certain privileges denied to other institutions, inasmuch as they received their Charter of Incorporation and official support from the State with which they were respectively identified. While the local State in most cases held shares in its State bank, in some instances, such as that of the Bank of Indiana, the State owned as much as half of the bank's capital, and claimed a share in its administration.

For many years banking in the United States consisted

for the most part of note issuing, and lending more than borrowing, the reason being that there was no general surplus of wealth to enable people to deposit. Each bank which was formed, and properly constituted, possessed the freedom of note issue, such privilege being always regarded as an inalienable right of American banking.

The First Bank of the United States

The first important bank of a Joint Stock nature to be established was that of the Bank of the United States, sometimes called "the First Bank," as it was followed by a second. It was formed somewhat on the model of the Bank of England, and was intended to serve as a Government and National Bank.

This bank received its Charter of Incorporation for a period of twenty years, in February 1791, and thereafter began business at Philadelphia. It had a capital of $10,000,000 in shares of $400 each, $8,000,000 of which was subscribed by members of the public, and $2,000,000 by the Government. It had a monopoly of banking at the outset, as Congress had agreed to charter no other bank. Not only was it the bank of the Government, but other banks in the States deposited with it, and its notes were made legal tender. Through its branches, of which there were several, it collected the public revenues.

The First Bank of the United States during the term of its Charter would appear to have done well and to have enjoyed a fair measure of public support. Its published report for 1811 showed that the bank had total deposits of $8,600,000, a note circulation of $5,000,000 and $14,000,000 of discounts. The bank's application for a renewal of its Charter was, however, not granted, being lost, curiously enough, both in the House of Representa-

tives and in the Senate by only one vote. The opposition to the bank's continuance arose in great measure from political feeling, and the mistrust due to same. It was obliged to go into liquidation in 1812, and met all its obligations in full.

Increase of Local Banks

Following the liquidation of the First Bank of the United States, local banks as well as State banks increased in number. In the absence of a National or Central bank, local banks sought to fulfil the functions of such, not only by the issue of notes, but by the collection and remittance of taxes.

As local and State banks were not then under legal obligation to maintain specie in reserve against their note issues, in many cases they did not do so. It frequently happened in consequence that in times of crisis, when a persistent demand was made upon them for payment of their notes, not a few of their number were unable to meet such demand and had to suspend payment.

Because of the general dissatisfaction which prevailed, a demand arose for a strong National Bank, somewhat after the pattern of the First National Bank which had gone into liquidation.

Second Bank of the United States

The desire for a stable institution found expression in the formation of the Second Bank of the United States, as it was called. It received in April 1816 its Charter from the Government empowering it to carry on the business of banking for a period of twenty years. Of its Directorate, twenty were chosen by the stockholders and five were appointed by the U.S. President, and Congress

agreed to charter no other bank during its authorised term. The bank had a subscribed capital of $35,000,000, and it was required not to suspend specie payments under a penalty. Its notes, which were not to be for less than $5 each, were made legal tender equally with Treasury notes and specie. In addition to its head office at Philadelphia, the bank had branches at New York, Boston, Baltimore and a number of other cities.

During the period of its establishment, the bank sought to fulfil its function as a National or Central Bank by meeting the Government's demands for credit, attending to the collection of Revenue, and making payments on account of the Treasury when required. It also sought to meet the calls made upon it by the local banks for specie in the various cities and towns where it had branches, and thus enabled them to keep their issues within proper limits.

Notwithstanding its usefulness, the Second Bank of the United States unfortunately suffered from political opposition in a similiar manner to its predecessor. This was shown by the fact that it was, after a time, deprived of the Government deposits, which were transferred to local banks in various States. As a result of this patronage, the latter increased in number, and with the increase concurrently of note circulation, a period of inflation ensued.

When the Charter of the bank expired in 1836 it was not renewed by the Government, and it accordingly ceased business as the Bank of the United States. In March of the same year it obtained a new State Charter, and began operations as the United States Bank of Pennsylvania. During the financial crisis of 1839, when there was a suspension of specie payments by many of the banks throughout the States, the bank stopped

payment temporarily in October of that year. Though it again resumed business, the bank failed finally in February 1841 as the result of a continued run upon it by its note-holders.

The subsequent period, until the passing of the National Bank Act in 1864, was marked by the increase of local banks in the various States. There was, however, no outstanding institution amongst their number. As the Federal Government of the time interfered very little in banking matters, it was left for the most part to the various States to provide any necessary legislation for the banks within their respective spheres.

Owing to the increase of gold and silver in circulation, and the gradual adoption of the bank cheque as a means of payment, bank notes were not so indispensable in monetary transactions as formerly.

Features of the Free Banking Period

Specie, though latterly more plentiful, was at first during the free banking era a scarce commodity. Because of this scarcity, and the lack of metallic reserves, banks were not infrequently at a loss to make payment of their notes on demand. Consequently, resort was had to various devices. Some banks introduced an optional clause making their notes payable at a certain period after presentation. Such notes not inappropriately received the name of " post notes," and became depreciated as a currency. In some cases banks were authorised by the State, or local authorities, to suspend specie payments. Fractional notes for various sums below 100 cents or one dollar were frequently in circulation.

The erroneous idea that bank notes were equivalent to money would appear to have been held in many parts of the States during this period. Those banks which

lacked capital, and were based solely upon the faith and credit of the State, and issued notes without restriction, were facetiously described as "paper money machines."

The Suffolk System

During the free banking period there were banks, such as the Suffolk Bank of Massachusetts and others associated with it in the New England States, which endeavoured to maintain a convertible currency and pay their notes on presentation. They also kept what was termed a "redemption fund" for this purpose. From this practice originated what became known in banking phraseology at the time as the "Suffolk System." The underlying principle of this system was a sound one, expressed in the following terms, viz., "Any bank having a note circulation should be in a position at all times to redeem it, and a bank ought not to issue notes beyond its ability to pay them on presentation."

The Safety Fund System

Contemporary with the Suffolk System, but more comprehensive in aim, was the Safety Fund System, sanctioned by legal enactment in April 1829. The system applied chiefly to the New York banks, and hence is sometimes called the "New York Safety Fund System." In terms of the Act referred to, banks which conformed to its requirements agreed to lodge with the Treasurer of the State annually ½ of 1 per cent. of their capital until they had paid 3 per cent. of same. The fund thus constituted was to be used to pay the circulation and other debts of any one of the associated banks in the event of its becoming insolvent. When the fund became diminished, it was to be restored by *pro rata* payments as before. The purpose of the Act was to

prevent failure among the member banks embraced in the system and to provide against non-payment of their debts. Although its intention was good, and most of the New York banks of the time adopted its terms, the Act did not prevent suspension and failure amongst their number.

Both the Suffolk System and the Safety Fund System served a useful purpose, which in each case was met by the provisions of the National Bank Act of 1863–4. The need for their continuance was therefore no longer required.

As might have been expected, owing to the excess issues of a number of the banks, the period prior to the passing of the National Bank Act was frequently one of inflation, followed by crisis or panic. The result in many cases was bank suspension and failure.

The weakness in the banking system would appear to have been due, as history has shown, to lack of proper regulation on the part of the authorities concerned. Notwithstanding the fact that laws were enacted in relation to the currency, so as to prevent inflation, their provisions in many cases were not given effect to. It was not until the National Bank System became established that the currency was for the first time placed on a stable foundation.

XXVIII

THE NATIONAL BANK SYSTEM

System regarded as a distinct improvement on previous practice; necessity for reform in Currency Laws; expressed in passing of the National Bank Act.—Provisions of the Act 1863–1864: a uniform currency to be established in all States of the Union; U.S. bonds to be pledged with Treasury.—Tax imposed on bank's circulation.—Limit of National Bank circulation.—Minimum capitalisation reduced.—Increase in number of National banks.—Growth of bank deposits.—What the Act effected: National Currency placed on a sound basis; brought under Federal Control; Stability of note issue secured.—Defects in National Bank System; demonstrated in crisis of 1907.—National Monetary Commission appointed: their criticisms on the National Bank System; issue of the Commission's plan and recommendations.

It has been said that the National Bank System was a product of the history of American banking, and that in each part of it was seen some improvement on previous practice. The experience of both the Government and the American people during the Civil War emphasised the necessity for reform in the currency laws, and led to the passing of the National Bank Act.

Provisions of the Act

It was during the period of the war that the first National Bank Act was passed, viz., 25th February, 1863. This statute was amended and superseded by Act of 3rd June, 1864, which ordained that thenceforth there should be a uniform currency throughout the States of the Union.

In order to share in the benefits of the new system,

banks were required to pledge United States bonds with the Treasury, those banks doing business in the sixteen leading cities to the extent of 25 per cent. of their circulation and deposits, and all others not less than 15 per cent. It was also provided under the Act that a tax of 1 per cent. should be imposed on the average circulation of Banks of Issue which entered the new system. A tax of 10 per cent. on their issue was required from State banks, and any other banks which did not enter the National Bank System. Banks formed under the Act were granted a Charter for a period of twenty years, and by a subsequent measure, passed in 1882, these Charters were extended for a similar period.

The National Bank Act not only secured a more stable currency, but also provided a market for Government bonds, as banks coming under its provisions had first to purchase the bonds which they were required to deposit with the Treasury. For this concession with the terms of the Act, the National banks were granted not only the privilege, but in a sense the monopoly, of note issue. The banks which remained out were obliged to pay so high a tax on their issue as in effect did away with any profit thereon.

National bank notes, because of the Government security deposited against them, were accepted equally with Treasury notes as though they were legal tender. Another advantage which the note holder possessed under the Act was security of payment. Although the bank which issued the note should have suspended payment, yet the Treasury would indemnify the holder against loss.

The limit of National Bank circulation was at first fixed at $300,000,000 and was afterwards increased to $354,000,000. Prior to 1900, the minimum National

Bank capitalisation required by the law was $50,000, but by an Act passed in that year the requisite minimum capital was reduced to $25,000. The same Act also provided for the refunding of the United States National Debt and for issuing of 2 per cent. consols, instead of 3 per cent. as before, as a basis for National Bank circulation.

Within a year after the passing of the National Bank Act, the National banks throughout the States had increased from 135 to 584, and before the close of 1865 they were virtually all embraced in the new system. At the close of 1899 the total number of National banks operating in the United States had increased to 3602.

The greatest increase in the formation of National banks took place in the years following 1900, which was the result of the passing of the Amending Act in March of that year. This measure, providing for the formation of smaller banks with a minimum capital of $25,000 only, instead of $50,000 as before, met the needs of the less populous and less wealthy communities. Along with the requisite lower capital, the new class of security necessary as a basis for circulation, namely, the 2 per cent. consols, were obtainable at a lower rate than the 3 per cent. formerly required. National banks, taking advantage of these provisions, were rapidly established in all parts of the States. It has been estimated that between the years 1900 and 1913, there was an average yearly increase of 294. These years also marked a great increase in the prosperity of the country, in which the banks shared, as was shown by the growth of their deposits and the extension of credit. The bank note circulation had increased from $265,000,000 in 1900 to $722,000,000 in 1913.

What the Act Effected

Although the National Bank Act of 1863–64 did not prevent future bank failures taking place, it proved to be, nevertheless, a wise and useful measure. The intention of its promoters was to place the national currency on a sound basis, and this object the Act effected. Prior to its passing there was lack of Government regulation, and amongst the various States, each sought to act independently of the other. This Act for the first time brought the national currency under Federal control, and made for centralisation in banking. It also operated against depreciation of the bank note, and secured its stability. The bank failures which occurred in succeeding financial crises did not take place as the result of the passing of this Act, but rather in spite of it. During all the succeeding period, the note maintained its par value, due to the fact that there was Government security behind it.

Defects in the National Bank System

Having regard to the fact that both the First Bank and the Second Bank of the United States suffered from opposition, chiefly of a political nature, it is not surprising that the National Bank System should at the outset have met with similar criticism. As time passed, however, and the system was tested, it proved its soundness, and no legislation was at any time brought in to undo the provisions of the Act or to restrict its scope. While such was the case, experience revealed the fact that the system had still its defects and was capable of improvement. This was demonstrated by the economic crisis of 1907, which, for lack of a strong central organisation, the National banks in their separate capacity were unable

to prevent or effectively deal with. Although the United States at that period had more gold than any other country, it could not be utilised so as to give needed assistance at any point of the system in time of emergency such as then arose.

With the view of preventing similar crises and perfecting the banking system of the country as far as possible, various Commissions were appointed. The most important of these was the National Monetary Commission of 1908, which after much deliberation submitted a plan, known as the Aldrich Scheme, for the entire reorganisation of the National Banking System.

This Commission, it is interesting to note, passed a number of criticisms on the system then in operation. Amongst other points, attention was drawn to the lack of provision for the concentration of reserves and their use and accessibility in time of need, and to the inadequate Federal and State laws restricting the use of bank reserves, thereby decreasing the lending power of banks. Attention was also directed to the lack of elasticity in the currency, owing to the stringency of legal regulations; to the lack of commercial paper for agricultural and commercial purposes, and the absence of an open market for the discount of such paper. It was further pointed out that there was no provision made for the opening or extension of bank branches in foreign cities, which were necessary for the proper development of the country's foreign trade.

The plan and recommendations of the National Monetary Commission were in substance embodied in the Federal Reserve Act, which was adopted by Congress in 1913.

XXIX

THE FEDERAL RESERVE SYSTEM

Importance of the National Banks' Co-operation.—System constituted by 1913 Act.—Objects of Federal Reserve Act set forth in its preamble.—Its principal provisions: (1) Federal Reserve districts and cities: their number and arrangement. (2) Stock Subscription: National banks' quota specified, Minimum Capital Stock for a Reserve bank. (3) Federal Reserve Board; constitution and powers of same. (4) District or Local Boards: their membership and qualification therefor. (5) Federal Advisory Council: its membership, and by whom appointed; its purpose. (6) Government Accounts; to be kept with Federal Reserve banks; also all Revenue moneys. (7) Note Issues and Reserves; mode of issue and redemption; statutory cover to be held; checks on excess issues. (8) Branch offices; regulation as to their opening. (9) Division of Profits; how distributed. (10) Member Banks' Reserves; with whom held; ratios against demand and time deposits. (11) State banks; provision for conversion into National banks, etc. (12) Open-market operations; nature and extent of same.

It has been said that it was the National Banking System which made the Federal Reserve System possible. This was doubtless the case, it being the support and co-operation of the National Banks which contributed so much to its success, as it was they also which subscribed the necessary capital to the Federal Reserve Banks at the outset. Under the Federal Reserve System the process of centralisation in banking has been more effectively carried out than it could have been under the national banking régime, and at the same time the influence of Federal law had fuller expression as a governing factor.

In the same way as the Act of 1863–4 inaugurated

the National Bank System, the Federal Reserve System may be said to have been constituted by the Act of 1913, which also governs its working. A knowledge of the provisions of this important Act is necessary to a proper understanding of the Federal Reserve System in its relations to present-day banking and currency in the United States.

THE FEDERAL RESERVE ACT

The preamble of this comprehensive measure sets forth briefly its objects, namely, to provide for the establishment of Federal Reserve banks; to furnish an elastic currency; to afford means of rediscounting commercial paper; to establish a more effective supervision of banking in the United States, and for other purposes.

The following are the principal provisions of the Act :—

1. *Federal Reserve Districts.*—The United States of America, excluding Alaska, were divided into territorial districts, to be known thereafter as Federal Reserve districts, and not to exceed twelve in all, each of which was to contain a Federal Reserve City. In each of these cities, of which there are also twelve, a Federal Reserve bank was to be organised, which would include in its title the name of the city in which it was situated. The following were constituted Federal Reserve cities under the Act, namely, Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco. The districts were designated by number from 1 to 12 in the order in which the cities are here given. Of these twelve cities, three were at first defined as Central Reserve cities, viz., New York, Chicago and

St. Louis, but since 1923 their number has been restricted to the first two only.

2. *Stock Subscription.*—Every National bank within the district in which a Federal Reserve bank was established had to subscribe to the capital stock of the latter, to the extent of 6 per cent. of its paid-up capital stock and Reserve Fund. Failure to comply with this provision on the part of any National Bank incurred forfeiture of its rights and privileges under the National Bank Act.

In the event of subscriptions by banks in any district being insufficient to provide the requisite capital required by a Federal Bank established therein, the Organisation Committee in such a case had the right to offer to public subscription at par the balance of stock required to complete the necessary sum. Should the subscription of banks and individual citizens be in any case deemed insufficient, the committee was empowered to allot to the United States Government, or Treasury, the balance of capital necessary for the bank to conduct business. In the latter event, such stock would be held by the Secretary of the Treasury, and be disposed of at any time as he might determine. No individual or corporation, other than a member bank, may hold at any time more than $25,000 par value of stock in any Federal Reserve bank, and only stock held by member banks is entitled to voting power. The capital stock of each Federal Reserve bank was divided into shares of $100 each, and none of their number could commence business with a subscribed capital of less than $4,000,000.

3. *Federal Reserve Board.*—In terms of the Act a Federal Reserve Board was appointed for the proper conduct of the affairs and management of the twelve banks under its jurisdiction. This Board consists of

the Secretary of the Treasury and the Comptroller of the Currency, both of whom are members *ex officio*, and six additional members appointed by the President of the United States, with the advice and consent of Congress. In his selection of members for the Board, not more than one of whom shall be chosen from any one Federal Reserve district, the President shall have due regard to a fair representation thereon of the financial, agricultural, industrial and commercial interests of the district represented. The members appointed to the Board are required to devote their full time to the business in connection therewith, and are each to receive an annual salary for their services. The Secretary of the Treasury is appointed Chairman of the Board during his term of office.

Extensive powers are delegated to the Board under the Act, including that of assessment on Federal Reserve banks for specific purposes; supervising and regulating the issue and retirement of Federal Reserve notes, and prescribing rules and regulations for their delivery to the Federal Reserve agents making application for them.

The Board is also empowered to examine at its discretion the books and affairs of each Federal Reserve bank, and to require such statements and reports as it may deem necessary. As regards Federal Reserve banks, such examination is made at least once a year, on order of the Federal Reserve Board, and as regards member banks, at least twice a year, on behalf of the Government. State examination may be accepted in the case of State banks.

A Weekly Statement has to be published showing the position of each Federal Reserve bank as regards assets and liabilities, as well as a combined statement for all Federal Reserve banks.

4. *District or Local Boards.*—Each Federal Reserve bank is required to have its affairs conducted under the supervision and control of a local board of directors, consisting of nine members, six of whom are selected by banks. Three of the members are chosen by the stock-holding banks, three, nominated by member banks, are to be representative of the agricultural and industrial interests of the community and the remaining three are appointed by the Federal Reserve Board. One of the latter three members is designated Chairman and Federal Reserve Agent, and must be a person of tested banking experience.

The local board is expected to extend to each member bank making application such credit and accommodation, whether by discounts or advances, as may be required from time to time in the ordinary way of business.

5. *Federal Advisory Council.*—In addition to the Federal Reserve Board, a Federal Advisory Council was created which consists of not less than twelve members, one for each Federal Reserve district. Each Federal Reserve bank, by its board of directors, is given the right to select annually from its own Federal Reserve district one member of said Council. Meetings of the Advisory Council are held at Washington, D.C., not less than four times each year.

The purpose of the Advisory Council is to confer with the Federal Reserve Board on general business conditions, and on matters generally having a bearing on the proper conduct of banking business under the Federal Reserve System.

6. *Government Accounts.*—The moneys held in the general fund of the Treasury—with one or two exceptions, as specified in the Act—may be deposited in

Federal Reserve banks. The latter are authorised to receive United States Treasury and all Government moneys, and to pay cheques drawn against them when presented for payment. They are also required to act as fiscal agents for the Government, and to receive at any principal office, or branch office, revenue moneys, and to pay over same to the Treasury or credit them to its bank account.

7. *Note Issues and Reserves.*—It is provided under the Act that on the deposit of U.S. Bonds at the Treasury, a Federal Reserve bank will receive on application from the Comptroller of the Currency circulating notes in blank equal in amount to the par value of the bonds so deposited. Such notes—defined Federal Reserve bank notes—shall be the obligation of the Federal Reserve banks procuring them. They shall be issued and redeemed under the same terms and conditions as National bank notes, except that they shall not be limited to the amount of the capital stock of the Federal Reserve bank issuing them.

The Act also provides that Federal Reserve notes are to be issued at the discretion of the Federal Reserve Board to Federal Reserve banks through the Federal Reserve agents appointed for the purpose. Such notes shall be the obligation of the United States Treasury, and shall be receivable by all National banks and other banks as currency, and for all taxes, customs and other public dues. They are redeemable in gold on demand at the Treasury Department in Washington, or in gold or lawful money at any Federal Reserve bank.

Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of notes as it may from time to time require against deposit of collateral equal in amount to the sum of the Federal

Reserve notes applied for. The security offered against the notes may consist of gold, or gold certificates, or of notes, drafts and bills of exchange. The Federal Reserve agent is required each day to notify the Federal Reserve Board at Washington of all issues and withdrawals of Federal Reserve notes to, and by, the Federal Reserve bank to which he is accredited.

Every Federal Reserve bank is required to maintain reserves in gold of not less than 40 per cent. against its Federal Reserve notes in actual circulation, and reserves in gold or lawful money of not less than 35 per cent. against its deposits.

Should the reserves held against note issue at any time fall below the statutory 40 per cent. ratio, the Federal Reserve Board is empowered in such a case to establish a graduated tax upon the excess issue. The tax chargeable is 1 per cent. per annum upon such excess, until the reserves fall to 32½ per cent., and should they fall to a lower percentage of the note issue, a proportional increased tax is imposed. The tax chargeable falls to be paid by the Reserve bank responsible in each case, but the bank has a right to add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board, and then current.

Federal Reserve notes are of various denominations from $5 upwards, the largest note being for $10,000.

8. *Branch Offices.*—The Federal Reserve Board may sanction or require any Federal Reserve bank to establish branches within the Federal Reserve district in which it is located, or within the district of any Federal Reserve bank which may have been suspended. Such branches are subject to rules and regulations which the Federal Reserve Board may prescribe, and are operated under the supervision of a board of directors to consist

of not more than seven, nor less than three members. One of their number falls to be appointed by the Federal Reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks may only hold office during the pleasure of the Federal Reserve Board.

Permission was also given under the Act to any National Banking Association possessing a capital and surplus of $1,000,000 or more, subject to approval of the Federal Reserve Board, to establish branches in foreign countries, or dependencies, for the furtherance of the foreign commerce of the United States. Such banks and their branches might be required, where located abroad, to act as fiscal agents of the United States.

9. *Division of Profits.*—After all necessary expenses and costs of a Federal Reserve bank have been paid, or provided for, the stock-holders are entitled to receive an annual dividend of 6 per cent. on the paid-up capital stock of the bank, such dividend to be cumulative. After payment of said dividend, the net earnings remaining are to be paid into a surplus fund until it reaches a sum equal to the bank's authorised capital. Thereafter, all excess above the 6 per cent. annual dividend shall be divided, 10 per cent. going to bank's surplus and the remainder to be paid to Government as a franchise tax. The payments from net profits made to the Treasury are to be used to supplement the gold reserves held against U.S. Treasury notes, or to the reduction of U.S. outstanding bonded indebtedness.

Federal Reserve banks, including their capital stock and surplus funds, and all income derived therefrom, are exempted from Federal, State and local taxation, except as regards taxes upon real estate.

10. *Member Banks' Reserves.*—Every bank or banking association which becomes a member of any Federal Reserve bank is required to establish and maintain reserve balances with the latter. While a uniform ratio of 3 per cent. of reserve must be held against the deposits in all cases, the ratio of reserve against demand deposits varies from a minimum of 7 to a minimum of 13 per cent., according to the city in which the member bank is located. Thus, for member banks not in a reserve or central reserve city, a balance equal to 7 per cent. of their demand deposits must be held; for those in reserve cities, not less than 10 per cent.; and for those in a central reserve city, a reserve balance of not less than 13 per cent. must be held with a Federal Reserve bank.

The Act defines demand deposits as those payable within thirty days of lodgment, and time deposits as those payable after thirty days' notice.

11. *State Banks.*—It is provided under the Act that a State bank may be converted into a National bank with the approval of its shareholders owning not less than 51 per cent. of its capital stock. Such conversion is subject to the approval of the Comptroller of the Currency, and must not be in contravention of any State law. In its new character the bank is subject to the same requirements and regulations as pertain to a National Banking Association under the Federal Reserve Act.

It is further permitted to any State bank remaining as such to make application to the Federal Reserve Board for the right to subscribe to the stock of the Federal Reserve bank within the district in which it is located. The Act prescribes that such application for stock by a State bank must be for the same amount

of stock as would have to be applied for in the case of a National bank. The Federal Reserve Board, if it approves of the application, may permit the State bank so applying to become a stockholder of the Federal Reserve bank of the district.

12. *Open-market Operations.*—Any Federal Reserve bank has the right to purchase and sell in the open market—whether at home or abroad, either from or to domestic or foreign banks, firms, corporations or individuals—bankers' acceptances, and bills of exchange, eligible for re-discount, with or without the indorsement of a member bank.

Every Federal Reserve bank has also power to deal in gold coin and bullion, and to make loans thereon; to exchange Federal Reserve notes for gold; to buy and sell bonds and notes of the United States, and bills, notes, bonds and warrants with maturity not exceeding six months from the date of purchase. Further, Federal Reserve banks may purchase from member banks, and sell, bills of exchange arising out of commercial transactions.

It is also given to Federal Reserve banks under the Act to establish from time to time, subject to review of the Federal Reserve Board, rates of discount to be charged by them for each class of paper, which they shall fix with a view of accommodating commerce and business.

Any Federal Reserve bank may open accounts with another Federal Reserve bank for exchange purposes. It may also, with the consent of the Federal Reserve Board, open and maintain accounts in foreign countries, and appoint correspondents and establish agencies in such countries, for the purpose of purchasing, selling and collecting bills of exchange arising out of commercial transactions in same.

XXX

THE FEDERAL RESERVE ACT IN OPERATION

Dr. H. Parker Willis' expressed opinion regarding the Act.—Federal Reserve banks fulfil functions of a Central bank.—Their relations with the State.—Federal Reserve system, and unification of interest.—Facilities for bill discounting.—Membership of System not obligatory on State banks and Trust Companies.—Ratio of gold reserve to be held against note issue not discretionary.—Federal Reserve banks and branch opening.—Federal Reserve System's support to credit during War period.—Post-war inflation of 1919–20.—Stock Exchange Crisis of 1929.—Position of Federal Reserve banks in regard to Assets and Liabilities.

THE foregoing are the principal provisions of the Federal Reserve Act which has been in operation during the past eighteen years or more, and has influenced banking and monetary conditions in America to a greater extent than any previous measure.

Professor H. Parker Willis has said that the Act is a compromise between two schools of thought, the banking school who favoured a central institution owned and operated by bankers for bankers, as opposed to the party whose conception was that such a mechanism should be owned by the Government and operated for and on behalf of the public.

The twelve Federal Reserve banks, co-ordinated as they are to each other, and under the control of one Central Board, fulfil the functions of a central bank. They may be said to have the management of the national currency, and, as experience has shown, they exercise a powerful influence in the domain of credit.

While they are the bankers of other banks, especially of the member banks, and also of the Government, yet they are owned by neither. At the same time, the Federal Reserve banks have a connection with the State, unlike any other banking organisation. The United States Government shares in the appointment of their Directorate, as also in their profits. Their note issue is made legal tender, equally with the Treasury notes, and the Treasury obliges itself to pay their notes in gold on demand. Further, unlike other American banks, the Federal Reserve banks are virtually exempt from Federal, State and local taxation.

The Federal Reserve System has made for unification of interest in banking in a way that the National Bank System failed to do. Through their membership, National banks have a direct connection with the Federal Reserve bank of the district in which they are located, and this link makes for identity of interest. State banks likewise, which may not have membership with a Federal Reserve bank, can become shareholders of same, and their interest is thereby secured. The advantage of such co-operation is further seen in the custody and use of reserves. Formerly each unit bank kept its own cash reserves, whether large or small, but under the new system they are required to maintain their reserves with a Federal Reserve bank. Gold reserves are in this way mobilised and made readily available in times of emergency.

Facilities are provided by the Act for discounting and rediscounting of commercial bills arising out of transactions in commerce and agriculture. For the settlement of such transactions it was considered that it would be advantageous to have a more extended use of the exchange bill, in preference to the promissory

note with only one name. Whether intentionally or not, the Act since its passing may be said to have paved the way for the opening of a bill market in New York and other leading cities.

The new system has effected a greater uniformity in the matter of rates of discount than was possible under the National banking régime. Each Federal Reserve bank as the central institution of its district may be said to give a lead to the other banks therein, and what is announced from time to time as the official Rate of Discount serves as a standard in the matter of loans and discounts. At the same time the "Official Rate" is not binding on banks in the States, neither are they under obligation to adopt it, so that its influence is not the same in their case as is that of the London Bank Rate among English banks.

It will have been observed that while it is obligatory on National banks to become members of the Federal Reserve System, it remains optional for State banks and Trust Companies to do so. Should they elect to become members, they must apply for no less an amount of stock than is required of National banks, and become subject to the same provisions of the Act as relate to the latter.

Unlike the English system, according to which the ratio of gold against the note issue is discretionary, the Federal Reserve Act requires, as has been stated, that the amount of gold held in reserve be not less than 40 per cent. of the issue. The regulation as regards the graduated tax chargeable on the deficit, should such arise, is somewhat on the same lines as is operative in the German banking system.

Although the Act provided that, in the event of subscription by banks to the capital stock of the Federal

Reserve banks not being sufficient, offers for same would be available to the general public and the State, it has not been necessary to give effect to these provisions. Neither has it been necessary as yet to call up more than 3 per cent. of the 6 per cent. subscription required of member banks.

All the Federal Reserve banks, except those of Boston and Philadelphia, have availed themselves of the liberty granted to open one or more branches in their respective districts.

The opinion has been expressed, by those in a position to know, that the Federal Reserve System, through its mechanism, saved the United States from financial chaos during the period of the European War. It proved a mainstay to credit in that critical time, and no less a support in the equally difficult period of post-War inflation. The system may therefore be said to have fully justified the confidence which the American people have in its soundness, and experience will show in what respects it may be further improved so as to yield the best results.

Under the Federal Reserve System, the currency is established on a sure foundation, as the bank note which passes from hand to hand is made legal tender and the Government makes itself responsible for due payment. The note is therefore effectually secured against depreciation.

The Federal Reserve banks, as the custodians of the nation's credit, have a great trust committed to them which they cannot be accused of mismanaging. The Federal Reserve Act has made provision against inflation and abuse of credit by requiring adequate reserves to be maintained. It is scarcely to be expected that over so vast a system as that reaching to two sea-boards,

the wheels of credit will always move smoothly. Nevertheless, as experience has shown, no inflationary period or crisis has occurred since the establishment of the system which was beyond the powers of the Federal Reserve banks to deal with, and in the end successfully.

The post-War inflation of 1919–20 was due to the excessive demands for credit consequent on the War. The high prices then current fostered speculation, which the banks under the direction of the Federal Reserve Board sought to check by a judicious curtailment of their advances and an increase in their rates of discount.

As regards the crisis of 1929, which was more a Stock Exchange than a banking one, the experience then gained by the Federal Reserve banks should assist them in their efforts to prevent the emergence of a similar crisis in the future. So long, however, as non-banking lenders, whether individuals or corporations, are permitted to grant loans directly to the stock market, the efforts of both the Reserve and member banks in their effective control of credit are in a measure handicapped.

The following figures showing the position of the Federal Reserve banks at the end of January 1930 are of interest:

Gold Reserves	$2,985,000,000
Re-discounts and advances	406,000,000
Bills bought in open market	258,000,000
U.S. securities held	477,000,000
Total bills and securities	1,154,000,000
Federal Reserve notes	1,702,000,000
Member bank reserve deposits	2,308,000,000
Consolidated reserve per cent.	78·3

(From National City Bank of New York's *Monthly Letter*, February 1930.)

The Gold Reserves shown in this statement represent

the mobilised cash reserves of the member banks, which prior to 1913 were held by each bank independently.

The total of Federal Reserve notes shown was the amount in actual circulation at the date of the Return, and fully covered by the Gold Reserves.

The member banks reserve deposits, given as $2308 millions, represent those of all the member banks, which number 8300, their total deposits being over $20,000 millions.

The consolidated reserve per cent. of 78·3 is the percentage of cover against the combined note and deposit liabilities of the Federal banks.

The paid-up capital of the twelve Federal Reserve banks at 31st October, 1930, was $170,428,000 and their surplus $276,936,000.

XXXI

Federal Farm Loan Act

The *raison d'être* for the Act.—Result of findings of Government Commission.—When Act passed.—Principal provisions of the Act: (1) Federal Land Banks; number, and where located; minimum capital required in each case. (2) Federal Farm Loan Board; how constituted; its functions. (3) National Farm Loan Associations; how formed; Stock held amongst members; how Advances are obtained; nature of Co-operative Credit System. (4) Joint Stock Land banks; for whom established; non-co-operative; loans made to individual farmers.—Farm Mortgage Bankers' Association: its membership and objects.

As the Federal Reserve banks were not empowered by the Act of 1913 to make advances on the security of land, the question afterwards arose as to the nature of credit facilities which should be granted to farmers and landholders. A Government Commission which had been appointed collected much information and were favourably impressed with the Co-operative Credit System in operation in Germany in connection with the Raiffeisen and Schulze-Delitzsch banks. The Commission's labours eventually resulted in the formation of a measure termed the Federal Farm Loan Act, which was passed by Congress on 17th July, 1916. The following are the principal provisions of this Act :—

1. *Federal Land Banks*.—These banks were required to be organised in cities or towns near the centre of the districts they respectively served. Though twelve in number, they are institutions distinct from the Federal Reserve banks. They were established at the following

centres, viz., (1) Springfield, Mass., (2) Baltimore, (3) Columbia, (4) Louisville, (5) New Orleans, (6) St. Louis, (7) St. Paul, (8) Omaha, (9) Wichita, (10) Houston, (11) Berkeley, (12) Spokane.

Each Federal Land bank is under the control of a board of nine directors, six of them chosen locally by the loan associations of the district, and three appointed by the Federal Farm Loan Board.

The minimum capital stock required by a Federal Land bank before it can begin operations is $75,000, divided into shares of $5 each. Shares may be subscribed for by any person or corporation, or by the United States Government. The Act provided that any part of the capital stock not subscribed for within thirty days of its original issue must be subscribed by the U.S. Government. Stock which may be owned by the Government receives no dividends.

2. *The Federal Farm Loan Board.*—This board, which is distinct from the Federal Reserve Board under the 1913 Act, is composed of the Secretary of the Treasury *ex officio*, and four other members appointed by the U.S. President with the approval of the Senate. This board is responsible for the working out of the details of the system, and it charters and organises the Federal Land banks and the Farm Loan Associations.

3. *The National Farm Loan Associations.*—These associations consist of groups of farmers formed for the purpose of securing credit through the Federal Land banks of their respective districts. Any ten or more persons who are farmers, or about to become owners of farm land, qualified for a mortgage loan under the Act, may unite to form a National Farm Loan Association. The management of the association vests in five directors who are elected by the members. One share of stock is

issued for every loan of $200 contributed towards capital, and whatever profit is made by the association is divisable as a dividend amongst the members.

A member who wishes an advance makes application to the association to which he belongs. This application is considered by a committee of not less than three, whose approval must be unanimous. If approved, the application is reported to the appraiser of the Federal Land bank of which the association is a member. As security, the borrower grants a first mortgage on his property to the Loan Association, by whom it is endorsed, and transferred to the Federal Land bank. The association at the same time applies for stock in the Federal Land bank equal to 5 per cent. of the loan granted. The Federal Land bank provides the money by issuing its own debentures known as Farm Loan Bonds. These bonds are readily purchased by mortgage and finance companies, who sell them at a profit. As the bonds bear the joint and several guarantee of the twelve Farm Loan banks, and the security of the Government as well, they are naturally regarded as a good investment and compete with first-class bonds in the market.

The security mortgage granted by a borrower and endorsed to the Federal Land bank is deposited with a Farm Loan Registrar, appointed by the Federal Farm Loan Board, and is retained by him as collateral security for the bank's debentures. No bank is permitted by the Act to issue bonds for more than twenty times its capital.

The farmers who are members of an association have an interest in seeing that every farmer who is a borrower pays back his loan, and this is an essential feature of the Co-operative Credit System.

4. *The Joint Stock Land Banks.*—To meet the case of

farmers who might not wish to become members of a Farm Loan Association, the Act provided that Joint Stock Land banks should be established. The minimum capital upon which such a bank may organise is $25,000, to which the Government must not subscribe. The directors, who must not exceed five in number, are chosen by the shareholders.

The Joint Stock Land banks make loans directly to individual farmers on the security of mortgage, similarly to the Federal Land banks. These mortgages are lodged with the Federal Registrar, and the loans issued against them are in the form of bonds which are readily convertible into cash when required. Unlike the bonds issued by the Federal Land banks, those of the Joint Stock banks are not guaranteed by other banks, but are the obligation only of the issuing bank. While a Federal Land bank may issue stock to the extent of twenty times of its paid-up capital, a Joint Stock Land bank may not issue bonds beyond fifteen times the amount of same.

There are at present not less than fifty-seven Joint Stock Land banks in all doing business, whose operations are chiefly confined to the middle and western States.

In addition to the banks mentioned, formed under the Federal Farm Loan Act, there is an organisation termed the Farm Mortgage Bankers' Association, the membership of which is composed of a number of State banks in agricultural States, together with several Loan and Mortgage Companies. Through this agency and its members, credit facilities are granted to farmers by the discounting of bills and granting loans against mortgage.

XXXII

MISCELLANEOUS BUSINESS TRANSACTED

Note issuing; bill discounting; granting advances; making remittances for customers; issuing letters of credit and travellers' cheques; receiving moneys on deposit and operative account; accepting securities for safe custody; dealing in Foreign Exchange, and in Stock Exchange Securities.—Trust Companies: their organisation and nature of business carried on; relation to Federal Reserve System.—The Investment Trust: when and for what purpose organised; diversity in form and method of operation; number of companies doing business; their protection to the small investor.—Features of American banking.—Independent unit banks the rule: regulated in accordance with Federal or State law; legal reserves held against note issue and deposits.—Federal Reserve banks as clearing bankers; the crossing of cheques not recognised; cheques exempt from Stamp duty; adding days of grace to bills not general; latest mechanical methods in use.—Bank personnel; appointment and training of candidates.

BANKS in the United States transact all kinds of banking business. That is to say, they issue notes, discount bills and grant advances; make remittances by draft or transfer; issue letters of credit and travellers' cheques payable at places abroad. They receive money on deposit and on current account operated by cheque. They also receive securities for safe custody, deal in foreign exchange and collect foreign bills, coupons, etc. In addition to the foregoing, American banks perform various services for their customers, not strictly of a banking nature.

The trade acceptance with two names is somewhat of an innovation in American banking, being in this respect a contrast to British banking. The promissory note was, and probably continues to be, more in favour with

the trading community than the commercial bill. It was one of the objects of the Federal Reserve Act to popularise the latter, as well as to introduce the system of rediscounting in the principal cities, such as is common to the London money market.

Stock Exchange dealings form no inconsiderable part of American banking. In a number of cases there are subsidiary companies formed by banks, or affiliated with them, which attend specially to this class of business.

Trust Companies

The Trust Company is an organisation distinct from the Investment Trust Co., and has long been established in America. Trust Companies are organised in each case under the laws of the State from which they obtain their Charter of incorporation.

As the name implies, Trust Companies engage in all kinds of trust business. They act when required as fiscal or transfer Agents for the Government, and for States and Corporations. They also act in a private capacity, accepting and executing all descriptions of trust business on behalf of clients. Trust Companies also engage in banking business by negotiating drafts and bills of exchange, receiving money on deposit and lending on security.

The majority of these companies are voluntary members of the Federal Reserve System, and as such are obliged to retain the same proportion of banking reserves with the Federal Reserve banks of their respective districts as is required of National banks.

The Investment Trust

The formation of Investment Trusts was sanctioned by the Federal Government under the amendment to

the Federal Reserve Act adopted in 1920, and known as the Edge Act. The various State governments permit the organisation of Investment Trusts under their general corporation laws, there being in the case of a few States special Acts governing their formation and operation. These corporations are modelled somewhat after the British type of Investment Trust, but are more diverse in form and method of operation. The purpose of the promoters of the Investment Trust was to enable the small investor to obtain access to the larger rates obtainable from the possession of stock in American industrial enterprises, and at the same time the protection which such organisations would afford. There have been upwards of 130 Investment Trusts organised since the passing of the Act sanctioning their formation.

There are various types of the American Investment Trust. Some corporations issue both preferred and common shares, as well as debentures. Others do not issue debentures, but borrow from banks any temporary accommodation required, giving their own securities as collateral.

It would appear that most of the American Investment Trusts do not confine their investments to those of the home market, but deal as well in the securities of other countries, including foreign Government bonds.

Features of American Banking

Banking in the United States is differently modelled from the Canadian system across its frontier. In Canada, as in Britain, the branch system is a characteristic feature in banking. All the leading banks in the Dominion have branches in the principal towns. In the United States the rule has been to have independent

banks, one or more, in each town, branch offices being the exception. According to the annual report of the Federal Reserve Board, there were on 30th June, 1929, over 25,000 separate banking institutions in the United States, a total of 5500 smaller than the number in 1921. All these organisations, though independent of each other in a sense, are regulated in accordance with Federal or State law. Each bank or banking company must obtain a Charter of incorporation before commencing business, and, in order to have the privilege of note issue, a certain proportion of security must be lodged against same at the proper quarter. Banks in America are required to maintain a legal reserve, not only against their note issue, but also against their deposits.

Banks and Trust Companies which are members of the New York Clearing Association have in most cases their charges governed by the rules and schedules of rates fixed by the Association. In no case must they charge their customers less than the rates prescribed. Banks which are not members of the New York Clearing House are at liberty to make their own charges.

Each of the twelve Federal Reserve banks exercises the function of a Clearing House for the member banks of its district. It also receives from non-member banks and Trust Companies, for the purpose of exchange or collection, notes, cheques and drafts payable upon presentation, provided that a deposit balance be maintained sufficient to meet all claims. All the Federal Reserve banks being equal members of the system, cheques for Clearing are sent to the Federal Reserve bank of the district to which the drawee banks belong.

In addition to the Clearing described, known as the Federal Reserve Transit System, Clearing Houses for

the regular Clearing and payment of cheques are established in the principal cities. The New York Clearing House was instituted in 1853, and its membership embraces over fifty banks, including the New York Federal Reserve Bank.

The practice of crossing cheques is unfamiliar to American banks. The means of tracing a cheque is not by the crossing or stamping on the face of the cheque, but by a bank's endorsement which must appear on the back. No stamp duty is chargeable in the United States on a bank cheque. This exemption is, of course, a great boon to the public and is conducive to the general opening of bank accounts. Customers' pass-books are not in use, the rule with banks in the States being to send to each customer monthly a statement of his account.

The custom of adding days of grace to bills, which obtains in Britain, is not general. In the State of New York, and some other States, days of grace are not allowed on bills or drafts. In several of the States, however, the ancient custom of adding three days of grace to such negotiable documents is still adhered to.

The latest mechanical methods for the despatch of office work have been introduced. In addition to typewriters, loose-leaf ledger posting machines are now in general use among banks in the States.

As regards the personnel of American banks, members of the staff are not chosen or trained in accordance with the custom among English banks. While there is no fixed rule, it frequently happens that an applicant up to forty years of age receives a bank appointment, who may have had no previous bank training. Again, it is a common custom for officials who have served some years in a bank to leave it and enter a different sphere

of service. Among banks in the States it would probably be found to be the exception instead of the rule for one who has entered a bank's service at an early age remaining in same throughout his business career.

It is no uncommon thing to find graduates of colleges and universities amongst members of a bank's staff. The applications from candidates possessing a university degree receive, as a rule, favourable consideration among American banks.

XXXIII

RECENT DEVELOPMENTS IN AMERICAN BANKING

Opening of branches in foreign cities.—Movement in favour of inland branch banking.—The McFadden Act, what it secured. —Chain and group banking; the merger movement; illustrations of its operation; results of same; causes conducing to amalgamation.—Differences between the English Joint Stock banks and those of the United States; restrictions in way of branch extensions.

PREVIOUS to the passing of the Federal Reserve Act no National bank could open branches in foreign countries. It was provided under Section 25 of said Act that National banks having a capital surplus of not less than $1,000,000 might, upon approval of the Federal Reserve Board, open branches in foreign countries or in any dependency of the United States. Advantage has been taken of the liberty granted, and several American banks and Trust Companies have now branches established in London, Paris and elsewhere abroad.

Within recent years there has also been a movement amongst the banks of the United States in favour of branch banking at home, as well as in other countries. While State banks had liberty to open branches within the State in which the principal office was established, and in many cases took advantage of the privilege, National banks were not empowered to do so. The utmost they could do until the passing of the McFadden Act in 1927 was to have agencies only for the receiving of deposits. By the passing of this Act, full permission was granted to National Banks to open branches, if desired,

in the cities in which the principal office was established, similarly to State banks. In a number of cases they have availed themselves of this privilege.

A recent development is that of chain and group banking among United States banks. "Group banking," as the term implies, is a combination of unit banks which may be spread over a wide area, but administered from one source. The latter consists of a holding company, which has derived its control by the exchange of its own stock for that of each member of the group. The North Western Bancorporation, Minneapolis, is one of the largest of these holding companies, and controls over 100 separate banks, scattered over several States.

Both chain and group banking, though bearing different names, represent the same idea of a combination of unit banks, each "chain" or "group" being under separate ownership. While ownership in the case of "group" banks is held by an incorporated holding company, that of "chain" banks is held by one or more individuals, and this is the chief distinction between them. This form of banking is chiefly confined to those States which prohibit or restrict branch banking, and the development has not been long enough in operation to judge of its success.

Besides the trend towards branch and group banking, there is also in operation what is described as "the Merger movement," or resort to a combination of interests among banking institutions. This movement has been more observable of late among the larger banks. As illustration, reference may be made to the absorption of the International Banking Corporation by the National City Bank of New York in 1915, and the merging of interests by the latter with the Farmers Loan and Trust Company during 1929.

Another important merger was that of the Mechanics and Metals National Bank with the Chase National Bank in 1926, followed by affiliation of the latter with the American Express Company in May 1929. Recent acquisitions by the Chase National Bank, in addition to those mentioned, were that of the Equitable Trust Company and the Interstate Trust Company, both in May 1930.

A no less outstanding fusion was that of the National Bank of Commerce with the Guaranty Trust Company of New York, by an exchange of shares, in May 1929.

Merger movements are not confined to New York banks, but extend to those of other leading cities in the States. Thus, a recent merger among Chicago banks was that of the Continental National Bank with the Illinois Merchants Trust Company in March 1929, forming the Continental Illinois Bank and Trust Company of Chicago.

These combinations have resulted in each case in very strong institutions with large resources. Amalgamation has also taken place in a number of cases amongst smaller banks throughout the States, thereby strengthening their position.

Amongst the causes in operation which tend to bring about the amalgamation of banks, one is said to be the number of failures which not infrequently take place among the smaller local banks. These failures are not necessarily due to mismanagement, but often arise from lack of adequate resources to enable them to withstand the strain in times of financial pressure, or of acute trade depression. Such failures, when they occur, weaken the confidence of depositors and induce them in many cases to remove their deposits elsewhere.

Another cause, contributing to the extension of the merger movement among banks and Trust Companies,

is the desire to reduce as far as possible their costs of operation and overhead charges. It has been proved by results that by the combination of two or more concerns greater economy in expenditure is effected than could be attained by their carrying on as separate units. This saving in costs, at all times an important consideration, is specially so when in most countries national and local taxation has the tendency to increase.

Yet another influence, making for consolidation among banks, is traceable to the trend amongst trading and manufacturing concerns in the same direction. The fusion of interests which has in several cases recently taken place among companies in the steel and automobile industries—to mention only two—may be cited in illustration of this movement.

It would appear to be a common custom with trading and industrial companies in the States not to confine their banking business to one establishment. This custom may be due to the rule that a bank may not make advances to a single firm or Company beyond a fixed sum, which shall have relation to its paid-up capital stock. Whether it be due to such a cause or not, there are disadvantages attending the custom, both from the banker's and the customer's standpoint. It was therefore considered a prudent policy that, as opportunity arose, banks should seek, *inter se*, for fusion of interest so as to strengthen their position and be able more adequately to meet demands made upon them for credit accommodation than they could do singly.

In regard to the present-day merger movement, both in industry and banking, America is not singular. The amalgamation of banks, represented in each of the members composing the "Big Five," is an illustration of the same movement in England.

There is this important difference, however, between the large English Joint Stock banks and those equally large, as regards capital and resources, in the United States. With the former, there is no restriction as to the opening of branches in any part of the country where desired, so that in the case of all of them there is a branch system embracing many offices operating in all parts of the homeland.

By means of this plan, those banks are enabled to receive deposits at any point of their respective branch system, which they can utilise in giving needed assistance in the way of credit to the agricultural and other industries wherever required.

The American banks, for the present, are restricted in the opening of new branches. They are restricted on the one hand by the operation of Federal and State law from opening branches beyond the city or State in which their principal office is located and, on the other hand, by the strength of public opinion. While the movement in favour of branch banking would appear to be gaining strength, there is still a large section of the public favourable to the unit bank.

XXXIV

SOME LEADING BANKS

(1) The Chase National Bank; its growth, present position, and resources; its subsidiary company. (2) The National City Bank of New York; its absorptions and affiliations; its subsidiary companies; branches in New York and foreign countries. (3) The Guaranty Trust Company of New York; Trust Companies absorbed; important affiliation; its subsidiary company; its foreign branches.—Other leading banks: Continental Illinois Bank and Trust Company, Chicago; The Bank of America (National Trust and Savings Association), San Francisco.—The Bankers Trust Company, New York.—Paid-up Capital and resources in each case.

AMONGST the largest institutions in the United States, outside the Federal Reserve banks, are the Chase National Bank; the National City Bank of New York, and the Guaranty Trust Co., each of which has total resources of over $2,000 millions.

Founded in 1877 with a capital of $300,000, the Chase National Bank has shown steady growth. With increases of capital at various periods, and combinations with other banking institutions—some of which, including the Equitable Trust Co., have been already mentioned—it has attained a leading place among American banks. Through its subsidiary company—the Chase Securities Corporation—the bank deals extensively in securities of every description, as well as in the negotiating of both home and foreign loans. By the bank's acquisition of the American Express Co.—which continues to operate under the same name—it has connections throughout the United States as well as in a number of foreign cities.

The bank has a paid-up capital and surplus of $361,524,000, deposits $1852 millions, and total resources of $2432 millions.

The National City Bank of New York was originally established in 1812 as the City Bank of New York, under which name it was known until 1865, when it entered the National Banking System, and assumed its present title. Within recent years the bank has adopted a policy of expansion both at home and abroad by means of its absorptions and affiliations with other companies—more particularly the International Banking Corporation and the Farmers Loan and Trust Co.—as previously stated.

In the National City Co., the bank owns a subsidiary company which it established in 1911 for the purpose of carrying on an exclusively securities business. Through the agency of the latter, the bank conducts extensive investment operations both in the United States and in Canada. Another important subsidiary is the National City Safe Deposit Co., through which the bank carries on safe deposit business at its head office and branches in New York.

In addition to its head office in Wall Street, the National City Bank has forty-five branch offices in New York and no less than one hundred branches in foreign countries (including Europe, Asia and South America). The bank has a paid up capital and surplus of $242,973,000, deposits, etc., $1583 millions, and total assets $2078 millions.

The Guaranty Trust Co. of New York was formed in 1863, and has been characterised by an aggressive policy in the absorption of other Trust Companies, among which were the Fifth Avenue Trust Co. and the Merton Trust Co. in 1910, and the Standard Trust Company in 1912. The Guaranty Trust Co. was one of the first, among

American banks and Trust Companies, to open branches in foreign cities, its first branch having been opened in London early this century. It has now three offices in London, and one in Liverpool, in addition to branches in Paris, Brussels and Antwerp. By its union in May 1929 with the National Bank of Commerce, which possessed a capital of $30 millions, the Guaranty Trust Co. greatly strengthened its position. Through its subsidiary, the Guaranty Co. of New York, the bank is able to deal with every class of security business.

The Guaranty Trust Co. has a paid-up capital and surplus of $260 millions, deposits, etc., $1276 millions, and total assets $2038 millions.

Among other leading banks in the United States are the following, viz., the Continental Illinois Bank and Trust Co., Chicago; the Bank of America (National Trust and Savings Association), San Francisco, and the Bankers Trust Co., New York.

The first-named of these banks—the Continental Illinois Bank and Trust Co., which is regarded as the fourth largest bank in the United States outside the Federal Reserve banks—is the result of the fusion of several banks, the principal of which were the Continental National Bank and Trust Co. and the Illinois Merchants Trust Co. The consolidation of the various interests was completed in March 1929 when the present name was assumed. Through its subsidiary, the Continental Illinois Co., with a capital of $20 millions, the bank deals specially in securities and investments. The head office of the bank is at Chicago, and it has also a London office.

The bank has a paid-up capital and surplus of $147,470,000, deposits, etc., $933 millions, and total assets $1174 millions.

The Bank of America (National Trust and Savings Association) is the name of only one of the three banks which were amalgamated in November 1930, the other two being the Bank of Italy (San Francisco) established in 1904, and the Bank of California. The Bank of Italy (San Francisco) had a paid-up capital of $50 millions, and the total resources of the new bank, after amalgamation, were estimated at $1350 millions, making it rank as the fifth largest bank in the United States. The chief offices of the bank are at San Francisco, and Los Angeles, with branches throughout the State of California, which number over 400 in all.

The Bankers Trust Co. was formed in 1903 to conduct a trust business, but has since widened its scope, so as to deal with all kinds of banking business. The company is both a member of the Federal Reserve System and of the New York Clearing House Association.

By its absorption of three important companies, viz., the Mercantile Trust Co., the Manhattan Trust Co. and the Astor Trust Co., the Bankers Trust Co. has greatly strengthened its position. Through its subsidiary, the Bankers Company of New York, the bank deals in every description of marketable security. In addition to its head office and two branches in New York, the bank has an office in London and one in Paris.

The paid-up capital and Reserve Fund of the company amount to $75 millions, its deposits to $655 millions, and total assets to $879 millions.

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INDEX

PRINTED IN GREAT BRITAIN BY RICHARD CLAY & SONS, LIMITED,
BUNGAY, SUFFOLK.